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2004 EDITION

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Tax Practice Guides and Checklists

AICPA Tax Division

Tax Practice Guides and Checklists
2004 EDITION

AICPA

WARNING

- This CD contains practice guides that were completed in the fall of 2004. It does not necessarily reflect subsequent legislative, administrative or tax form changes. You may need to revise these guides accordingly.

For your convenience, we have provided them to you in two formats: PDF for "page by page" print outs that will maintain their exact appearance and format and Word for downloading to your C-drive should you want to edit them to meet your needs. Please note that due to the many different print drivers in operation, some formatting may be lost when you download them onto your C drive and begin editing. You may need to adjust formatting.

- If you have any questions about the content of these guides please contact AICPA Member Satisfaction at (1) 888-777-7077. Questions regarding membership issues or address problems should be directed to Judy Smith (202) 434-9270 or JSmith@aicpa.org.

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

2004 Tax Practice Guides and Checklists

**Prepared by the
Tax Practice Guide Committee of the
AICPA Tax Division**

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PREFACE

Enclosed are the *2004 Tax Practice Guides and Checklists* prepared by the 2004 Tax Practice Guides Task Force of the AICPA Tax Division. If you are a Tax Section member, this practice guide was sent to you, in CD-ROM format, as part of your basic membership benefit package.

If you are *not* a member of the Section, you may wish to join in order to expedite receipt of these guides and checklists and to take advantage of the many benefits of Section membership. The price of the guides and checklists to non-members is \$119 (\$148.75 for non-AICPA members). For just \$100 (\$124 with *The Tax Adviser* magazine), you can receive supplemental practice guides, the quarterly *Tax Division Newsletter* and other publications, as well as additional membership benefits. Please contact Judy Smith at (202) 434-9270 if you would like information on membership.

If you have any other questions regarding these guides please contact AICPA Member Satisfaction at (1)(888) 777-7077.

The Task Force hopes these practice guides and checklists will be helpful to you and solicits your comments for their improvement. Please e-mail your comments and suggestions to the following address:

comments@aicpa.org

To access this year's checklists and practice guides (as well as prior years' products) via the Internet, log on to the following Web address—www.cpa2biz.com/checklists. You must be a Tax section member and a registered user of the site. Instructions for registering are on the Web page.

NOTICE TO READERS

Tax practice guides are designed as educational and reference material for the members of the Tax Section and others interested in the subject. They do not establish standards or preferred practices.

Although much thought and effort have gone into the development of these guides, they are subject to change. Many of the regulations related to current and prior tax acts have not been issued. These checklists need to be revised as new developments occur.

Accordingly, these practice guides are issued as drafts only, and you retain responsibility for their final content. Please review them carefully and make any changes necessary for your particular use.

Members of the 2003-2004 AICPA Tax Practice Guides Committee prepared these practice guides. The members of that committee are listed below:

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2004 TAX PRACTICE GUIDES & CHECKLISTS

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TAX RETURN ORGANIZERS

These tax organizers have been designed to assist in compiling the information needed to prepare the respective returns. The following pages contain many of the common income items, expenses, deductions and credits, as well as questions that determine the proper handling of these items.

The organizer can be completed by the client or staff that is working on accounting or audit areas.

ESTATE TAX RETURN ORGANIZER
FORM 706

Decedent's Full Name _____

Decedent's Social Security Number _____

Date of Birth _____

Date of Death _____

Decedent's legal residence at date of death (city, county, state and zip code or foreign country)

Date Domicile Established _____

Citizenship:

Decedent _____

Spouse _____

Personal Representative's Name _____

Personal Representative's Address _____

Personal Representative's Social Security/Federal ID Number _____

Personal Representative's Fax, Telephone Number and E-mail Address _____

Attorney's Name and Telephone Number _____

Broker's Name and Telephone Number _____

Insurance Agent's name and Telephone Number _____

Name and location of court where will was probated or estate administered

Case Number _____

This organizer is designed to assist you, the personal representative, in gathering the information required for preparation of the appropriate estate and inheritance tax returns. Please complete the organizer and provide detail and documentation as requested. Should you have questions regarding any items, please call.

ESTATE TAX RETURN ORGANIZER (706)

- DONE N/A
- 100) GENERAL INFORMATION
- 101) Provide a certified copy of:
- will _____
 - death certificate _____
 - letters testamentary or letters of administration _____
- 102) Provide a copy of any trust of which the decedent was a grantor, trustee, beneficiary, or in which decedent held any interest or power, and obtain Forms 1041 for the past 3 years filed on behalf of the trust. _____
- 103) Provide beneficiary information below (Note if non-USA citizen):

FULL NAME	ADDRESS CITY/STATE/ZIP	RELATIONSHIP TO DECEDENT	SOCIAL SECURITY #	BIRTH DATE

- 104) If the decedent or spouse has ever filed any federal gift tax returns, provide copies. (Disregard this request if the returns were previously provided.) _____
- 105) If the decedent made any gifts valued at more than \$11,000 during the calendar year of his/her death, complete gift tax return organizer. _____
- 106) Provide a list of the decedent's assets including all property owned or co-owned by the decedent. Note if any assets were bequeathed to a specific beneficiary. Provide a copy of any personal property insurance floater that lists specific items of property. _____
- 107) If the decedent had access to a safety deposit box, provide the following:
- location _____
 - joint depository, if any, and relationship to the decedent. _____
 - detail list of contents. _____
- 108) If the decedent's spouse predeceased the decedent, provide a copy of the spouse's Form 706, state inheritance tax return(s) and any Form(s) 1041 filed on behalf of that estate. _____
- 109) If the decedent was divorced, provide a copy of any divorce decree and/or property settlement. Date of divorce: _____

ESTATE TAX RETURN ORGANIZER (706)

		<u>DONE</u>	<u>N/A</u>
110)	Please provide a copy of a pre-nuptial agreement or separate/community property agreement, if applicable.	_____	_____
111)	Provide a copy of federal and state income tax returns for the prior three years. (Disregard this request if the returns were prepared by this firm, or previously provided.)	_____	_____
112)	Sign and return attached power of attorney.	_____	_____
113)	If the decedent was involved in any litigation, please provide details.	_____	_____
200)	REAL ESTATE		
201)	Provide copies of all deeds.	_____	_____
202)	Provide copies of the most recent appraisal of real estate owned by the decedent.	_____	_____
203)	If appraisals have not been prepared, provide a schedule of all real estate owned or under contract to purchase with the following information: <ul style="list-style-type: none">• legal description and or street address, if applicable• assessed value for property tax purposes (copy of latest tax assessment notice)	_____ _____ _____	_____ _____ _____
204)	Include description of real estate (and length of ownership) subject to a qualified conservation easement.	_____	_____
205)	Provide lease documents for real estate owned subject to a lease.	_____	_____
300)	STOCKS, BONDS, AND MUTUAL FUNDS		
301)	Provide copies of all brokerage and mutual fund statements for the current year prior to the date of death and each statement since the date of death.	_____	_____
302)	Provide a list and copies of all stock and bond certificates held by the decedent, which were not listed on the brokerage statements.	_____	_____
303)	If the decedent owned stock in a closely held corporation, provide copies of: <ul style="list-style-type: none">• stock certificates• buy-sell agreements• tax returns and/or financial statements for the prior five years• appraisal of stock• list of other stockholders and shares held	_____ _____ _____ _____ _____	_____ _____ _____ _____ _____
304)	Provide documentation of worthless securities.	_____	_____
305)	List of US Savings Bonds (Series E, EE and HH) with face amount and month and year of purchase.	_____	_____

ESTATE TAX RETURN ORGANIZER (706)

	<u>DONE</u>	<u>N/A</u>
400) MORTGAGES, NOTES AND CASH		
401) Provide copies of the following statements for all accounts for the period beginning two months prior to death through the present:		
• checking accounts	_____	_____
• savings accounts	_____	_____
• certificates of deposits	_____	_____
• money market accounts	_____	_____
402) Provide a copy of the current check registers for the above accounts, and list any outstanding checks.	_____	_____
403) Provide the amount of cash (currency) held by the decedent at death. \$ _____	_____	_____
404) Provide copies of all notes and mortgages owed to the decedent, including amortization schedules if available.	_____	_____
500) LIFE INSURANCE		
501) Provide a list of life insurance policies indicating:		
• insured	_____	_____
• amount	_____	_____
• ownership	_____	_____
• beneficiaries	_____	_____
• company	_____	_____
• policy number	_____	_____
502) Provide Form(s) 712 issued by the life insurance companies. (Form 712 is required for each policy.)	_____	_____
503) If the decedent was not the owner of the policy, provide date and circumstances of acquisition by the owner.	_____	_____
504) If subject to a split-dollar arrangement, please provide agreement.	_____	_____
600) JOINTLY OWNED PROPERTY		
601) For all assets owned jointly by the decedent and others, indicate the date and amount contributed by each.	_____	_____
602) Provide name(s) and address(es) of co-owners other than spouse.	_____	_____
603) Provide documentation of assets owned jointly to include bank statements, brokerage statements, deeds, vehicle titles, etc.	_____	_____

ESTATE TAX RETURN ORGANIZER (706)

	<u>DONE</u>	<u>N/A</u>
700) MISCELLANEOUS PROPERTY		
701) Provide copies of any available appraisals of:		
• art	_____	_____
• antiques	_____	_____
• jewelry	_____	_____
• other collectibles	_____	_____
• other property	_____	_____
702) If the decedent had an interest in a partnership, and/or other unincorporated business, provide a copy of the following:		
• partnership or other ownership agreement	_____	_____
• tax returns and/or financial statements for the prior five years	_____	_____
• buy-sell agreements	_____	_____
• appraisal	_____	_____
703) Provide a list of any refunds or reimbursements received or receivable by the estate.	_____	_____
704) Provide a list of household furnishings and personal assets owned by the decedent and the value of each.	_____	_____
705) Provide a list of vehicles owned by the decedent with make, model, year, odometer reading, general condition and Blue Book values at the date of death, and copies of certificates of title, if available.	_____	_____
706) Provide Form(s) 712 for all life insurance policies owned by the decedent <u>on the life of another</u> .	_____	_____
707) Provide a description and fair market value of all other assets not noted above.	_____	_____
800) ANNUITIES AND RETIREMENT BENEFITS		
801) Provide copies of the brokerage, mutual funds, bank or plan participant statements for all IRAs, 401(k)s and other retirement plans.	_____	_____
802) Provide copies of commercial annuity contracts and last statement indicating balance of account.	_____	_____
803) Provide a copy of all beneficiary designations.	_____	_____
900) ADMINISTRATION EXPENSES		
901) Provide a copy of the funeral-related expenses including the following:		
• funeral arrangements	_____	_____
• markers	_____	_____
• reception costs	_____	_____
• flowers	_____	_____

ESTATE TAX RETURN ORGANIZER (706)

	<u>DONE</u>	<u>N/A</u>
<ul style="list-style-type: none">• thank you notes and postage• obituary• clergy or rabbi honoraria• other	<hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/>
902) Provide a schedule of other administration expenses which were not paid through the estate checking account or have yet to be paid. The schedule should include the following:		
<ul style="list-style-type: none">• legal fees• accounting fees• commissions paid• maintenance of estate property• appraisal fees• personal representative fees, and out of pocket expenses (travel, postage, telephone etc.)• other expenses (please provide detail)	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
1000) DEBTS, MORTGAGES, AND LIENS OF DECEDENT		
1001) Provide copies of all notes, mortgages, etc., owed by the decedent and a schedule of balances at date of death.	<hr/>	<hr/>
1002) Schedule all other debts owed by the decedent including:		
<ul style="list-style-type: none">• to whom owed• amount of debt• interest rate• due date• payment amounts	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
1100) LOSSES DURING ADMINISTRATION		
1101) Schedule any losses, including casualty losses, incurred during the administration of the estate.	<hr/>	<hr/>
1200) CHARITABLE BEQUESTS		
1201) Attach a schedule of charities listed in the will including name, address and character of organization.	<hr/>	<hr/>
1300) CREDIT FOR PRIOR TRANSFERS		
1301) If the decedent received property during the ten years prior to date of death from the estates of others, provide copies of the prior decedents' estate tax returns and will.	<hr/>	<hr/>

GIFT TAX RETURN ORGANIZER

FORM 709

Donor's Full Name _____ SS# _____

Spouse's Name _____ SS# _____

Address _____

City, Town, or Post Office _____ County _____ State _____ Zip Code _____

Telephone Number _____ Telephone Number _____ Donor's Citizenship _____
Home (____) _____ Office (____) _____ Spouse's Citizenship _____

YES NO

1. Did donor die during the year? If yes, provide a copy of the death certificate. _____
2. Have gift tax returns been filed in prior years? If yes, provide copies, unless they were prepared by this firm. _____
3. Have previously filed gift tax returns been examined? If so, provide copies of examination reports. _____
4. Have the gifts (including generation-skipping transfers) to third parties during the calendar year been considered as made one-half by each spouse? If yes, :

Were taxpayers married during entire year? _____
 Did taxpayers get married during the year? If yes, when? _____
 Did taxpayers get divorced during the year? If yes, when? _____
 Will each spouse file a gift tax return? _____
 Did the taxpayer's spouse die during the year? If yes, when? _____
5. Has the donor's spouse made gifts? If so, complete a separate Form 709 organizer. _____
6. Were any of the above gifts made to or for the benefit of a trust? If yes, provide a copy of the trust instrument and the trust's identification number. _____
7. Does the value of any of the above gifts reflect a valuation discount? If so, provide a copy of the valuation report or the analysis upon which the discount is based. _____
8. Were any of the above gifts based upon an appraisal? If yes, provide a copy of appraisal. _____

GIFT TAX RETURN ORGANIZER
FORM 709

9. Please complete:

DONEE'S NAME AND ADDRESS	RELATIONSHIP TO DONOR	DESCRIPTION OF GIFT	DONEE'S DATE OF BIRTH	DONOR'S ADJUSTED BASIS IN THE GIFT	DATE OF GIFT	VALUE AT DATE OF GIFT	IF SECURITIES, CUSIP NO.

If Donee is a trust, please provide the tax identification number.

ORGANIZER FOR TAX-EXEMPT ORGANIZATIONS (990)—(SHORT VERSION)

Organization Name _____ Tax Period _____
Address _____ Federal ID # _____
_____ State ID # _____
Registration # _____ Exempt Under § 501(c) _____

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and statement of receipts and expenses as of year-end. For § 501(c)(3) and (c)(4) organizations and § 4947(a)(1) trusts, categorize expenses as to program services, management/general, and fund raising. In addition, the following information will be needed:

	<u>DONE</u>	<u>N/A</u>
1. Provide information about any activities new to the organization, which require IRS notification.	_____	_____
2. Provide copies of any changes to the governing documents or information related to a change in organization structure.	_____	_____
3. Provide a list of names and percentage owned of any related organizations and indicate whether they are exempt.	_____	_____
4. List the states with which a copy of this return is to be filed.	_____	_____
5. Provide a list of employee benefit plans for which the organization requires assistance in filing Form 5500.	_____	_____
6. Provide copies of any change notices received from any taxing authority.	_____	_____
7. Provide a schedule of “in-kind” contributions and indicate whether they are included in income.	_____	_____
8. Indicate if you have provided written acknowledgement to donors of individual contributions of \$250 or more.	_____	_____
9. Indicate if you have provided information on the amount of the deductible donation to donors of <i>quid pro quo</i> donations in excess of \$75.	_____	_____
10. Disclose taxes paid during the year for the following:		
a) excess expenditures to influence legislation.	_____	_____
b) disqualifying lobbying expenditures.	_____	_____
c) political expenditures.	_____	_____
d) excess benefit transactions.	_____	_____
11. For each area of program service revenue, provide an explanation of how the activity contributes to the organization’s exempt purpose.	_____	_____

ORGANIZER FOR TAX-EXEMPT ORGANIZATIONS (990)—(SHORT VERSION)

	<u>DONE</u>	<u>N/A</u>
12. Attach information related to the income and expenses from unrelated business income.	_____	_____
13. Provide a list of investments at year-end including cost and market value of each item.	_____	_____
14. Provide copies of all K-1s received.	_____	_____
15. Provide copies of all royalty agreements.	_____	_____
16. Provide a schedule of donors who gave property with a value of at least \$5,000.	_____	_____
17. Provide a schedule of the three largest fund raising events, describe the event and indicate the amount raised. (Attach a copy of fundraising materials.)	_____	_____
18. Prepare a statement describing the services provided under the four largest program services offered by the organization.	_____	_____
19. How many employees were on the payroll as of March 12th?	_____	_____
20. Provide a schedule of wages/compensation, deferred compensation and expense account payments for all officers, directors, trustees, key employees and advisors. Include a schedule of time devoted to fundraising, management, exempt purpose and average hours worked per week.	_____	_____
21. Provide a list of names and addresses of employees (other than officers) who received compensation in excess of \$50,000.	_____	_____
22. Provide a list of officers, directors or key employees who received \$10,000 or more in compensation from a related entity.	_____	_____
23. Provide a list of names and addresses of individuals/entities providing professional services to the organization at fees in excess of \$50,000.	_____	_____
24. Provide information including amounts expended regarding legislative, lobbying or political activities during the year.	_____	_____
25. Provide details regarding all transactions with a trustee, director, principal officer, or creator of the organization.	_____	_____
26. Provide the amount of initiation fees and capital contributions for § 501(c)(7) organizations.	_____	_____
27. Attach a detailed computation of the 85% qualification test for § 501(c)(12) organizations.	_____	_____
28. For public interest law firms—attach a list of cases litigated during the year and describe the benefit to the general public.	_____	_____
29. How many additional copies of the return are needed? _____		

ORGANIZER FOR TAX-EXEMPT ORGANIZATIONS (990)—(SHORT VERSION)

	<u>DONE</u>	<u>N/A</u>
30. Indicate if you have three years returns and the exemption application available for public inspection.	_____	_____
31. Additional information:	_____	_____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

ORGANIZATION NAME _____

ADDRESS _____

TAX YEAR ENDING _____

FEDERAL ID # _____

STATE ID # _____

REGISTRATION # _____

EXEMPT UNDER § 501(c) _____

This organizer is designed to assist you in gathering the information needed to prepare the organization's current year tax returns. Complete the organizer and answer all questions. Should you have questions regarding any items, please call.

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

Provide a copy of the organization's general ledger, trial balance, depreciation schedules, balance sheet, and statement of revenues and expenses as of year-end. For § 501(c)(3) and (c)(4) organizations and § 4947(a)(1) trusts, categorize expenses as to program services, management/general and fundraising. In addition, the following information will be needed:

YES NO N/A

100) GENERAL INFORMATION

101) If this is the first year we will prepare the tax return(s), provide the following from your file or your prior accountant:

- tax returns for the prior three years. _____
- depreciation schedules. _____
- IRS notification of exempt status. _____
- application for Exemption, Form 1023 or 1024. _____
- IRS determination letter for any qualified retirement plans. _____

102) Is the organization's address different from last year? _____

103) List the names and telephone numbers of the organization's advisors.

	Name	Telephone
Attorney		
Banker		
Insurance Agent		
Broker		

104) List the states with which a copy of this return will be filed. _____

105) Did the organization engage in any activity not previously reported to the IRS? If yes, provide a detailed description of each activity. _____

106) Were any changes made in the organizing or governing documents? If yes, attach a copy of the changes and indicate if they have been reported to the IRS. _____

107) Did the organization undergo a liquidation, dissolution, termination, or substantial contraction during the year? If yes, provide details. _____

108) Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other organization? If yes, enter the name of the organization and indicate if it is exempt or non-exempt. _____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
109) Does the organization provide fringe benefits to employees such as health insurance, group term life insurance, education assistance, expense allowances, or personal use of organization owned real or tangible personal property? If yes, list the benefits provided. _____	_____	_____	_____
110) Did the organization include taxable fringe benefits as compensation in employee W-2 forms and, if applicable, subject such amounts to payroll taxes?	_____	_____	_____
111) Does the organization sponsor any of the following employee benefit plans?	_____	_____	_____
.1) Qualified retirement plan(s)? If yes, are we to prepare Form 5500? Number of plans: _____	_____	_____	_____
.2) SEP plan? If yes, are we to calculate contribution?	_____	_____	_____
.3) Cafeteria plan? If yes, are we to prepare Form 5500?	_____	_____	_____
.4) Non-qualified retirement plan(s)? Number of plans: _____	_____	_____	_____
.5) Other employee benefit plans not described above? If yes, please describe: _____	_____	_____	_____
112) Has the organization been notified of any changes to previous returns by any taxing authority? If yes, provide copies of all correspondence.	_____	_____	_____
113) Has the organization posted the results of tax changes in its general ledger?	_____	_____	_____
114) Did the organization establish any new general ledger accounts during the tax year? If yes, provide a list with a brief explanation of each account.	_____	_____	_____
115) Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value? If yes, provide a detailed list indicating the value of each item and whether it is included in revenue and expense.	_____	_____	_____
116) Did the organization solicit any contributions or gifts that were not tax deductible? If yes, did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	_____	_____	_____
117) For each of the four largest programs services offered by the organization, prepare a statement that fully describes the services provided, the number of persons benefited and other achievements of the program. For §§ 501(c)(3) and (4) organizations, identify the amount of any grants paid to others as part of the program.	_____	_____	_____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

- 118) Complete the following schedule for all officers, directors, trustees and key employees of the organization as of the last day of the tax year.

Name, Address & Title	Average Hours Worked Per Week & Percentage of Time Devoted to: A) Fundraising B) Management C) Exempt Purposes	Compensation	Contribution to Employee Benefit Plans	Expense Account and Other Allowances

- 119) Did any officer, director, trustee or key employee receive \$10,000 or more in compensation from a related entity?

- 120) Did you incur any expenses to influence legislation, lobbying or other political activities during the year?

- .1) If yes, provide a schedule of expenses and indicate to which accounts those expenses were posted.

- .2) Disclose taxes paid during the year for the following:

- a) excess expenditures to influence legislation
- b) disqualifying lobby expenditures
- c) political expenditures
- d) excess benefit transactions

- .3) Has the organization elected to pay the proxy tax?

- 121) For § 501(c)(3) organizations, did the organization file Form 5678, Election/Revocation of Election by an Eligible § 501(c)(3) Organization to Influence Legislation?

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

122) For § 501(c)(7) organizations (clubs):

- .1) Did the organization receive initiation fees or capital contributions? If yes, indicate the amount. \$ _____
- .2) Did the organization receive gross receipts for public use of club facilities? If yes, indicate the amount. \$ _____
- .3) Does the club's governing instrument or any written policy statement provide for discrimination against any person because of race, color, or religion?

123) For § 501(c)(12) organizations, attach a detailed computation of the 85% qualification test, including a detailed listing of gross income received from: (1) members or shareholders and (2) other sources.

124) For public interest law firms, attach information describing each case litigated during the year or still in litigation. Describe how the litigation will benefit the general public.

125) Does the organization have a taxable first or second-tier subsidiary? If yes, complete the following:

Name, Address, and TIN of Corporation or Partnership	Percentage of Ownership Interest	Nature of Business Activities	Total Income	End-of-year Assets
1)				
2)				
3)				
4)				
5)				

126) Did the organization have unrelated business taxable income (UBTI) as a result of the operation of a trade or business not related to the organization's exempt function?

Note: UBTI is one of the most critical issues within tax exempt organization reporting. Provide complete information related to your revenue sources to allow proper determination of the income classification.

127) Provide copies of all Schedules K-1 received.

128) Provide copies of all royalty agreements.

129) Provide a detailed list of the expenses directly related to the UBTI activity.

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

130) Provide a detailed list and explanation of the allocation method of general expenses allocated to UBTI.

131) Have cash receipts for UBTI activities over \$10,000 been reported on Form 8300?

132) How many additional copies of the return are needed? _____

133) Provide a list, including amounts paid by year of contribution, of persons who contributed \$5,000 or more to the organization. Label each page of the list as "Not Open For Public Inspection."

134) Did the organization comply with the public inspection rules?

135) Did the organization provide a copy of its exemption application and/or Form 990 to anyone who requested it?

136) Provide a list of independent contractors, other than professionals such as attorneys and accountants. Indicate amounts paid, nature of work performed and normal working hours.

137) Did the organization file all necessary Forms 1099, 1098?

200) §§ 501(c)(3), 501(e), (f) & (k) ORGANIZATIONS AND § 4947(a)(1) TRUSTS

201) Did the organization pay compensation in excess of \$50,000 to any employee other than officers, directors and/or trustees? (Compensation includes personal use of auto, spousal travel, etc.) If yes, complete the following schedule for the five highest paid employees.

Name and Address of Employees Paid More Than \$50,000	Title and Average Hours Per Week Devoted to Position	Compensation	Contributions to Employee Benefit Plans	Expense Account and Other Allowances
1)				
2)				
3)				
4)				
5)				
Total number of other employees paid over \$50,000 _____				

202) Did the organization's board approve all compensation, including fringe benefits (i.e. personal use of auto, cell phones), travel and loans to all officers, directors and trustees? If yes, provide a copy of the minutes where this action was taken.

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

203) Did the organization pay any individual deferred compensation after active employment? If yes, provide detail including name, TIN, address, amount(s) paid and amount(s) reflected on W-2.

204) Did the organization pay any individuals or companies in excess of \$50,000 for professional services? If yes, complete the following schedule for the five highest paid service providers.

Name and Address of Persons Paid More Than \$50,000	Type of Service	Compensation
Total number of others receiving over \$50,000 for professional services _____		

205) How many employees were on the payroll as of March 12th? _____

206) Provide the actual cash receipts from public support. \$ _____

207) During the tax year, has the organization, either directly or indirectly, engaged in any of the following acts with a trustee, director, principal officer or creator of the organization or any taxable organization or corporation with which such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary?
If yes, provide an explanation of the transaction(s):

.1) sale, exchange or lease of property.

.2) lending of money or other extension of credit.

.3) furnishing of goods, services, or facilities.

.4) payment of compensation or payment or reimbursement of expenses if more than \$1,000.

.5) transfer any part of the organization's income or assets? If yes, describe:

208) Does the organization make grants for scholarships, fellowships, student loans, etc.? If yes, provide a statement explaining how the organization determines that those receiving disbursements from the organization in furtherance of its charitable programs qualify to receive payments.

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

209) Did the organization directly or indirectly engage in any of the following with any other organization described in § 501(c) (other than § 501(c)(3) organizations) or with any organizations described in § 527 (relating to political organizations):

.1) Transfers from the organization to a noncharitable exempt organization of:

.a) cash?

.b) other assets?

.2) Other transactions:

.a) sales of assets to a noncharitable exempt organization?

.b) purchases of assets from a noncharitable exempt organization?

.c) rental of facilities or equipment?

.d) reimbursement arrangements?

.e) loans or loan guarantees?

.f) performance of services or membership or fundraising solicitations?

.3) Sharing of facilities, equipment, mailing lists or other assets, or paid employees?

.4) If the answer to any of the above is yes, complete the following schedule.

Amount Involved	Name of Noncharitable Exempt Organization	Description of Transfers, Transactions, and Sharing Arrangements

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

- 210) Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in § 501(c) (other than § 501(c)(3)) or with any organizations described in § 527 (relating to political organizations)? If yes, complete the following schedule.

Name of Organization	Type of Organization	Description of Relationship

300) PRIVATE SCHOOLS

- 301) Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?

- 302) Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?

- 303) Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community served? If yes, provide a description; if “no,” provide an explanation.

- 304) Does the organization maintain the following (provide an explanation of any “no” or “n/a” answers):

- .1) records indicating the racial composition of the student body, faculty, and administrative staff?
- .2) records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?
- .3) copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

.4) copies of all material used by the organization or on its behalf to solicit contributions?

305) Did the organization discriminate by race in any way with respect to (provide an explanation for any yes answers):

.1) students' rights or privileges?

.2) admissions policies?

.3) employment of faculty or administrative staff?

.4) scholarships or other financial assistance?

.5) educational policies?

.6) use of facilities?

.7) athletic programs?

.8) other extracurricular activities?

306) Did the organization receive any financial aid or assistance from a governmental agency? If yes, provide a schedule and indicate if the organization's right to such aid has ever been revoked or suspended.

307) Does the organization certify that it has complied with the applicable requirements of §§ 4.01 through 4.05 of Rev. Proc. 75-50, covering racial nondiscrimination? If no, provide an explanation.

400) REVENUE AND SUPPORT

401) Provide a schedule listing contributors who, during the tax year, gave (directly or indirectly) money, securities or property with a value totaling at least \$5,000 (exclude individual gifts of less than \$1,000). Provide the donor's name, address, total amount contributed and the date(s) contributed. If the organization is exempt under §§ 501(c)(7), (8), (10), or (19), substitute \$1,000 for the \$5,000 above and explain the specific purpose and actual use of each gift. For non-cash contributions provide a description of the property and its fair market value.

402) Did the organization sell or dispose of any assets (other than inventory) during the tax year? If yes, provide a schedule listing (sales of publicly traded securities may be aggregated):

• description of asset.

• date acquired.

• how acquired.

• date sold.

• buyer.

• gross sales price.

• if purchased, cost or other basis.

• if donated, value at time acquired.

• expense of sale.

• improvements made after acquisition.

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
<ul style="list-style-type: none"> depreciation since acquisition. 	_____	_____	_____
403) Did the organization sponsor any special fundraising events? If yes, provide a schedule listing the three largest special events conducted, as measured by gross receipts. Describe each of these events and indicate for each event the gross receipts, the amount of contributions included in gross receipts, the gross revenue (gross receipts less contributions), the direct expenses, and the net income (gross revenue less direct expenses). Furnish the same information in total figures for all other special events held that are not among the three largest. Indicate the type and number of the events not listed individually (for example, three dances and two raffles). (Provide copies of fundraising materials.)	_____	_____	_____
404) Provide a computation of cost of goods sold for the sale of inventory items.	_____	_____	_____
405) Do you provide written acknowledgment to donors of individual contributions of \$250 or more?	_____	_____	_____
406) Do you provide information on the amount of the deductible donation to donors of <i>quid pro quo</i> donations in excess of \$75?	_____	_____	_____
407) If membership dues and contributions have been reported in one income category provide a breakout.	_____	_____	_____
500) EXPENSES			
501) For all organizations other than §§ 501(c)(3) and (c)(4) organizations and § 4947(a)(1) charitable trusts, does the organization desire to allocate expenses under the classifications of expenses related to management/general, program services, and fundraising? If yes, categorize expenses on the organization's trial balance.	_____	_____	_____
502) Did the organization award any grants or other allocations during the tax year? If yes, provide a schedule of the following for each class of activity: (not needed for schools)	_____	_____	_____
<ul style="list-style-type: none"> donee's name and address. amount of the grant or allocation. relationship of any donee to any person or corporation with an interest in the organization. 			
503) Does the organization provide any of the following benefits to members or dependents (do not include employment-related benefits provided to officers and employees)? If yes, provide a schedule showing amounts of:	_____	_____	_____
<ul style="list-style-type: none"> death, sickness, hospitalization, or disability benefits. unemployment compensation benefits. other benefits (describe). 	_____	_____	_____

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

YES NO N/A

504) Did the organization make payments to affiliates? If yes, provide a schedule listing the following:

- name and address of each affiliate receiving payments.
- amount and purpose of the payments.

505) For §§ 501(c)(3), (4) organizations, did the organization evaluate compensation and benefits payments to officers, directors and employees under the excess benefit rules?

506) If the organization incurred joint costs for a combined educational campaign and fundraising solicitation, provide a schedule that allocates the amount incurred among programs services, management and fundraising.

600) BALANCE SHEET

601) Does the organization have any loans receivable (include receivables from officers, directors, trustees and key employees) at year-end? If yes, provide a schedule showing the following information:

- borrower's name (identify officers, directors, trustees or key employees).
- original amount.
- balance due at year end.
- date of note.
- maturity date.
- repayment terms.
- interest rate.
- security provided by the borrower.
- purpose of the loan.
- description and fair market value of the consideration furnished by the lender (for example, cash—\$1,000; or 100 shares of XYZ, Inc. common stock—\$9,000).

602) Does the organization hold any land, buildings or equipment for investment purposes? If yes, provide a schedule listing the following:

- description.
- cost or other basis.
- accumulated depreciation.
- investment in fixed assets held at year-end.
- show the cost or other basis, accumulated depreciation, and book value for each asset.

603) Does the organization hold securities or other investments (other than land, buildings and equipment)? If yes, provide a schedule describing each of these investments held at year-end, including the cost and end of year market value.

ORGANIZER FOR TAX EXEMPT ORGANIZATIONS (990)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
604) Did the organization receive contributions or grants that contributors or grantors have designated as payable for one or more future years? If yes, provide a schedule describing each contribution or grant and indicate the total amount of each item and the amount applicable to each future period.	_____	_____	_____
605) Does the organization have loans payable at year end? If yes, provide a schedule showing the following information (identify officers, directors, trustees or key employees):	_____	_____	_____
• the name of lender.	_____	_____	_____
• original amount.	_____	_____	_____
• balance due at year end.	_____	_____	_____
• date of note.	_____	_____	_____
• maturity date.	_____	_____	_____
• repayment terms.	_____	_____	_____
• interest rate.	_____	_____	_____
• security provided by the borrower.	_____	_____	_____
• purpose of the loan.	_____	_____	_____
• the relationship of the lender to any officer, director, trustee, or key employee of the organization.	_____	_____	_____
606) Did the organization own 50% or greater interest in a taxable corporation or partnership? If yes, provide the name of the organization and describe the nature and amount of any intercompany payments.	_____	_____	_____
607) Did the organization enter into a transaction with a "Tax Sheltered Entity" (Shelter Registration)? If yes, provide details.	_____	_____	_____

COMMENTS OR EXPLANATIONS

INDIVIDUAL TAX ORGANIZER
FORM 1040

Enclosed is an organizer that I (we) provide to our tax clients in order to assist them in gathering the information necessary to prepare their individual income tax returns.

The Internal Revenue Service matches information returns with amounts reported on tax returns. A negligence penalty may be assessed where dividends, interest, and security sales are underreported or when mortgage interest is overstated. Accordingly, all information returns reflecting amounts reported to the Internal Revenue Service should be submitted with this organizer. Forms such as:

W2	Schedules K1
1099 INT	(Forms 1065, 1120S, 1041)
1099 DIV	Annual Brokerage Statements
1099 B	Form 1098 – Mortgage Interest
1099 Misc.	Any other tax information statements
1099 (any other)	

For your convenience there is an engagement letter enclosed which explains the services I (we) will provide to you. Please sign the copy of the engagement letter and return it in the enclosed envelope. Keep the original for your records.

To continue providing quality services on a timely basis, I (we) urge you to collect your information as soon as possible. If information from “passthrough” entities such as partnerships, trusts and S corporations is the only data you are missing, please send the data you have assembled and forward the missing information as soon as it is available.

The filing deadline for your 2004 income tax return is April 15, 2005. In order to meet this filing deadline your completed tax organizer needs to be received no later than March 21, 2005. Any information received after that date may require that an extension of time be filed for this return.

If an extension of time is required, any tax that may be due with this return must be paid with that extension. Any taxes not paid by the filing deadline are subject to late payment penalties and interest when those taxes are actually paid.

I (we) look forward to providing services to you. Should you have questions regarding any items, please do not hesitate to contact us (me).

Optional Paragraph: New for 2004 – The American Jobs Creation Act of 2004 signed by the President on October 22, 2004 created a new provision for deducting the higher of state income tax or sales tax but not both. Actual sales tax paid or tables in IRS Publication 600 may be used for this purpose.

INDIVIDUAL TAX ORGANIZER (1040)

If we did not prepare your prior year returns, provide a copy of federal and state returns for the three previous years. Complete pages 1 through 4 and all applicable sections.

Taxpayer's Name _____ SS# _____ Occupation _____

Spouse's Name _____ SS# _____ Occupation _____

Home Address _____

City, Town, or Post Office _____ County _____ State _____ Zip Code _____ School District _____

Telephone Number _____ Telephone Number (T)* _____ Telephone Number (S)* _____
Home () _____ Office () _____ Office () _____
Email _____ Fax () _____ Fax () _____

Taxpayer: Date of Birth _____ Blind? - Yes _____ No _____

Spouse: Date of Birth _____ Blind? - Yes _____ No _____

Dependent Children Who Lived With You:

Full Name	Social Security Number	Relationship	Birth Date

Other Dependents:

Full Name	Social Security Number	Relationship	Birth Date	Number Months Resided in Your Home	% Support Furnished By You

*T= Taxpayer

*S=Spouse

INDIVIDUAL TAX ORGANIZER (1040)

Please answer the following questions and submit details for any question answered “Yes”:

	<u>YES</u>	<u>NO</u>
1. Has your marital status changed since your last return?	_____	_____
2. Will the address on your current returns be different from that shown on your prior year returns? If yes, provide the new address and date moved.	_____	_____
3. Were there any changes in dependents from the prior year? If yes, provide details.	_____	_____
4. Are you entitled to a dependency exemption due to a divorce decree?	_____	_____
5. Did any of your dependents have income of \$800 or more? (\$400 if self-employed)	_____	_____
6. Did any of your children under age 14 have investment income over \$1,600? If yes, do you want to include your child's income on your return?	_____	_____
7. Are any dependent children married and filing a joint return with their spouse?	_____	_____
8. Did any dependent child over 19 years of age attend school less than 5 months during the year?	_____	_____
9. Did you receive income from any legal proceedings, cancellation of student loans or other indebtedness during the year? If yes, furnish details.	_____	_____
10. Did you make any gifts during the year directly or in trust exceeding \$11,000 per person?	_____	_____
11. Did you have any interest in, or signature, or other authority over a bank, securities, or other financial account in a foreign country?	_____	_____
12. Were you a resident of, or did you earn income in, more than one state during the year?	_____	_____
13. Do you wish to have \$3 (or \$6 on joint return) of your taxes applied to the Presidential Campaign Fund?	_____	_____
14. Do you wish to contribute to any state fund(s)? If yes, indicate amount(s) and which fund(s): _____	_____	_____
15. Do you want any overpayment of taxes applied to next year's estimated taxes?	_____	_____
16. Do you want any remaining federal refund deposited directly to your bank account? If yes, enclose a voided check.	_____	_____
17. Do either you or your spouse have any outstanding child or spousal support payments or federal debt?	_____	_____
18. If you owe federal tax upon completion of your return, are you able to pay the balance due?	_____	_____

INDIVIDUAL TAX ORGANIZER (1040)

	<u>YES</u>	<u>NO</u>
19. Do you expect a large fluctuation in your income, deductions or withholding next year? If yes, provide details.	_____	_____
20. Did you receive a total distribution from an IRA or other qualified plan that was partially or totally rolled over into another IRA or qualified plan within 60 days of the distribution?	_____	_____
21. If you received an IRA distribution, which you did not rollover, provide details. (1099R)		
22. Did you “convert” IRA funds into a Roth IRA? If yes, provide details.	_____	_____
23. Did you receive any disability payments this year?	_____	_____
24. Did you receive tip income not reported to your employer?	_____	_____
25. Did you sell and/or purchase a principal residence or other real estate? If yes, provide settlement sheet (HUD 1) and Form 1099-S.	_____	_____
26. Did you have any installment sale amounts due from relatives?	_____	_____
27. Did you receive income from tax-exempt securities?	_____	_____
28. Do you have any worthless securities or any loans that became uncollectible this year?	_____	_____
29. Did you receive unemployment compensation? If yes, provide Form 1099-G.	_____	_____
30. Did you have any casualty or theft losses during the year? If yes, provide details.	_____	_____
31. Did you have foreign income or pay any foreign taxes?	_____	_____
32. If there were dues paid to an association, was any portion not deductible due to political lobbying by the association or benefits received?	_____	_____
33. Has the IRS, or any state or local taxing agency, notified you of changes to a prior year’s tax return? If yes, provide copies of all notices/correspondence received.	_____	_____
34. Are you aware of any changes to your income, deductions and credits reported on a prior year’s returns?	_____	_____
35. Did you purchase gasoline, oil, or special fuels for non-highway vehicles?	_____	_____
36. If you or your spouse have self-employment income, did you pay any health insurance premiums or long term care premiums? If yes, were either you or your spouse eligible to participate in an employee’s health insurance or long term care plan?	_____	_____
37. If you or your spouse have self-employment income, do you want to make a retirement plan contribution?	_____	_____
38. Did you acquire any “qualified small business stock?”	_____	_____

INDIVIDUAL TAX ORGANIZER (1040)

	<u>YES</u>	<u>NO</u>
39. Were you granted or did you exercise any stock options? If yes, provide details.	_____	_____
40. Were you granted any restricted stock? If yes, provide details.	_____	_____
41. Did you pay any household employee over 18 years old wages of \$1,400 or more?	_____	_____
If yes, provide copy of Form W-2 issued to household employees.	_____	_____
If yes, did you pay total wages of \$1,400 or more in any calendar quarter to household employees?	_____	_____
42. Did you surrender any U.S. savings bonds?	_____	_____
43. Did you use the proceeds from Series EE U.S. savings bonds purchased after 1989 to pay for higher education expenses?	_____	_____
44. Did you realize a gain on property, which was taken from you by destruction, theft, seizure or condemnation?	_____	_____
45. Did you start a business?	_____	_____
46. Did you purchase rental property?	_____	_____
47. Did you acquire any interests in partnerships, LLCs or S corporations this year?	_____	_____
48. Do you have records to support travel and entertainment expenses? The law requires that adequate records be maintained for travel and entertainment expenses. The documentation should include amount, time and place, date, business purpose, description of gift(s) (if any), and business relationship of recipient(s).	_____	_____
49. Were you the grantor, transferor or beneficiary of a foreign trust?	_____	_____
50. Do you have a will or trust that has been updated within the last three years?	_____	_____
51. Can the Internal Revenue Service discuss questions about this return with the preparer?	_____	_____
52. Did you incur expense as a elementary and secondary educator? If so, how much?	_____	_____

INDIVIDUAL TAX ORGANIZER (1040)

ESTIMATED TAX PAYMENTS MADE

	FEDERAL		STATE (NAME):	
	Date Paid	Amount Paid	Date Paid	Amount Paid
Prior year overpayment applied				
1st Quarter				
2nd Quarter				
3rd Quarter				
4th Quarter				

WAGES, SALARIES, AND OTHER EMPLOYEE COMPENSATION - List and enclose all Forms W-2.

TS*	Employer	Gross Wages	Fed W/H	FICA W/H	Medicare W/H	State W/H	Local W/H

PENSION, IRA, AND ANNUITY INCOME - List and enclose all Forms 1099R.

TS*	Name of Payor	Total Received	Taxable Amount	Federal Tax Withheld	State Tax Withheld

*T = Taxpayer S = Spouse

YES NO

- | | | | | |
|---|----------|--|--|--|
| 1. Did you receive a lump sum distribution from your employer? | | | | |
| 2. Did you "convert" a lump sum distribution into another plan or IRA account? | | | | |
| 3. Did you transfer IRA funds to a Roth IRA this year? | | | | |
| 4. Have you elected a lump sum treatment for any retirement distributions after 1986? | | | | |
| | Taxpayer | | | |
| | Spouse | | | |

INDIVIDUAL TAX ORGANIZER (1040)

SOCIAL SECURITY BENEFITS RECEIVED - List and enclose all 1099 SSA Forms.

		Gross	Medicare Premiums Deducted	Net Received
Taxpayer		\$	\$	\$
Spouse		\$	\$	\$

INTEREST INCOME - List and enclose all Forms 1099-INT and statements of tax-exempt interest earned.

[illegible]

*T = Taxpayer S = Spouse J = Joint

INTEREST INCOME (Seller Financed Mortgage)

Name of Payor	Social Security Number	Address	Interest Recorded

INDIVIDUAL TAX ORGANIZER (1040)

DIVIDEND INCOME - List and enclose all Forms 1099-DIV and statements of tax-exempt dividends earned.

TSJ*	Name of Payor per 1099 or statement	Ordinary Dividends	Qualified Dividend	Capital Gain	Non Taxable	Federal Tax Withheld	Foreign Tax Withheld

*T = Taxpayer S = Spouse J = Joint

MISCELLANEOUS INCOME - List and enclose related Forms 1099 or other forms.

Description	Amount
State and local income tax refund(s)	
Alimony received	
Jury fees	
Finder's fees	
Director's fees	
Prizes	
Gambling	
Other miscellaneous income	

INDIVIDUAL TAX ORGANIZER (1040)

INCOME FROM BUSINESS OR PROFESSION (Schedule C)

Who owns this business? ☐ Taxpayer ☐ Spouse ☐ Joint

Principal business or profession _____

Business name _____

Business taxpayer identification number _____

Business address _____

Method(s) used to value closing inventory:

___ Cost ___ Lower of cost or market ___ Other (describe) _____ N/A _____

Accounting method:

___ Cash ___ Accrual ___ Other (describe) _____

	<u>YES</u>	<u>NO</u>
1. Was there any change in determining quantities, costs or valuations between the opening and closing inventory? If yes, attach explanation.	_____	_____
2. Did you deduct expenses for the business use of your home? If yes, complete office in home schedule	_____	_____
3. Did you materially participate in the operation of the business during the year?	_____	_____
4. Was all of your investment in this activity at risk?	_____	_____
5. Were any assets sold, retired or converted to personal use during the year? If yes, list assets sold including date acquired, date sold, sales price, basis and gain or loss.	_____	_____
6. Were any assets purchased during the year? If yes, list assets acquired, including date placed in service and purchase price, including trade-in. Include copies of purchase invoices.	_____	_____
7. Was this business still in operation at the end of the year?	_____	_____
8. List the states in which business was conducted. _____ _____		
9. Provide copies of certification for members of target groups and associated wages qualifying for Work Opportunities Credit. .	_____	_____
10. Provide information for welfare-to -work credit.	_____	_____

Attach a schedule of income and expenses of the business or complete the following worksheet. Complete a separate schedule for each business.

INDIVIDUAL TAX ORGANIZER (1040)

INCOME AND EXPENSES (Schedule C)

Description	Amount
Part I –Income	
Gross receipts or sales	
Returns and allowances	
Other income (List type and amount)	
Part II - Cost of Goods Sold	
Inventory at beginning of year	
Purchases less cost of items withdrawn for personal use	
Cost of labor (Do not include salary paid to yourself)	
Materials and supplies	
Other costs (List type and amount)	
Inventory at end of year	
Part III – Expenses	
Advertising	
Bad debts from sales or services	
Car and truck expenses (Complete Auto Expense Schedule on Page 20)	
Commissions and fees	
Depletion	
Depreciation and section 179 expense deduction (provide depreciation schedules)	
Employee benefit programs (other than Pension and Profit Sharing plans shown below)	
Insurance (other than health)	
Interest:	
a. Mortgage (paid to banks, etc.)	
b. Other	
Legal and professional services	
Office expense	
Pension and profit-sharing plans (employee's portion only)	

CONTINUED

INDIVIDUAL TAX ORGANIZER (1040)

INCOME AND EXPENSES (Schedule C) – CONTINUED

Rent or lease:	
a. Vehicles, machinery, and equipment	
b. Other business property	
Repairs and maintenance	
Supplies	
Taxes and licenses (Enclose copies of payroll tax returns) State Taxes	
Travel, meals, and entertainment:	
a. Travel	
b. Meals and entertainment	
Utilities	
Wages (enclose copies of W-3/W-2 forms).	
Lobbying expenses	
Club dues:	
a. Civic club dues	
b. Social or entertainment club dues	
Other expenses (list type and amount)	

COMMENTS: _____

INDIVIDUAL TAX ORGANIZER (1040)

OFFICE IN HOME

To qualify for an office in home deduction, the area must be used exclusively for business purposes on a regular basis in connection with your employer's business and for your employer's convenience. If you are self-employed, it must be your principal place of business or you must be able to show that income is actually produced there. If business use of home relates to daycare, provide total hours of business operation for the year.

Business or activity for which you have an office	Total area of the house (square feet)	Area of business portion (square feet)	Business percentage

I. DEPRECIATION

	Date Placed in Service	Cost/Basis	Method	Life	Prior Depreciation
House					
Land					
Total Purchase Price					
Improvements (Provide details)					

II. EXPENSES TO BE PRORATED:

Mortgage interest		_____
Real estate taxes		_____
Utilities		_____
Property insurance		_____
Other expenses - itemize	_____	_____
	_____	_____
	_____	_____
	_____	_____

III. EXPENSES THAT APPLY DIRECTLY TO HOME OFFICE:

Telephone		_____
Maintenance		_____
Other expenses - itemize	_____	_____
	_____	_____
	_____	_____
	_____	_____

INDIVIDUAL TAX ORGANIZER (1040)

CAPITAL GAINS AND LOSSES - Enclose all Forms 1099-B and 1099-S. If you wish us to complete the following schedule furnish all your brokerage account statements and transaction slips for sales and purchases.

Enter sales reported to you on Forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss)

Enter the sales **NOT** reported on Forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss)

INDIVIDUAL TAX ORGANIZER (1040)

SALE/PURCHASE OF PERSONAL RESIDENCE

Provide closing statements (HUD-1) on purchase and sale of old residence and purchase of new residence.

Description	Amount

MOVING EXPENSES

Did you change your residence during this year incident to a change in employment, transfer, or self-employment?

Yes _____ No _____

If yes, furnish the following information:

Number of miles from your former residence to your new business location _____ miles

Number of miles from your former residence to your former business location _____ miles

Did your employer reimburse or pay directly any of your moving expenses?

Yes _____ No _____

If yes, enclose the employer provided itemization form and note the amount of reimbursement received.

\$ _____

Itemize below the total moving costs you paid without reduction for any reimbursement by your employer.

Expenses of moving from old to new home:

Transportation expenses in moving household goods and family

\$ _____

Cost of storing and insuring household goods

\$ _____

RESIDENCE CHANGE

If you changed residences during the year, provide period of residence in each location.

Residence #1 From ____ / ____ / ____ To ____ / ____ / ____

Residence #2 From ____ / ____ / ____ To ____ / ____ / ____

INDIVIDUAL TAX ORGANIZER (1040)

RENTAL INCOME - Complete a separate schedule for each property.

1. Description and location of property: _____

2. Residential property? Yes _____ No _____ Personal use? Yes _____ No _____

If personal use yes:

Number of days the property was occupied by you, a member of
the family, or any individual not paying rent at the fair market value. _____

Number of days the property was not occupied. _____

3. Did you actively participate in the operation of the rental property during the year? Yes _____ No _____

4. a) Were more than half of personal services that you or your spouse performed
during the year performed in real property trades? Yes _____ No _____

b) Did you or your spouse perform more than 750 hours of services during the year in
real property trades or businesses? Yes _____ No _____

Income:			
Rents received		Other income	
Expenses:			
Mortgage interest		Legal	
Other interest		Cleaning	
Insurance		Assessments	
Repairs and maintenance		Utilities	
Travel		Other (itemize)	
Advertising			
Taxes			

If this is the first year we are preparing your return, provide depreciation records.

If this is a new property, provide the closing statement. (HUD 1)

List below any improvements or assets purchased during the year.

Description	Date placed in service	Cost

If the property was sold during the year, provide the closing statement. (HUD 1)

INDIVIDUAL TAX ORGANIZER (1040)

INCOME FROM PARTNERSHIPS, ESTATES, LLCs, TRUSTS, AND S CORPORATIONS

Enclose all schedule Forms K-1 received to date. Also list below all Forms K-1 not yet received:

Name	Source Code*	Federal ID #

*Source Code: P = Partnership E = Estate/Trust S = S Corporation

CONTRIBUTIONS TO RETIREMENT PLANS

	TAXPAYER	SPOUSE
Are you covered by a qualified retirement plan? (Y/N)		
Do you want to make the maximum deductible IRA contribution? (Y/N)		
IRA payments made for this return.	\$	\$
IRA payments made for this return for nonworking spouse.	\$	\$
Do you want to make an IRA contribution even if part or all of it may not be deducted? (Y/N) If yes, provide copy of latest Form 8606 filed.		
Have you made or do you want to make a Roth contribution? (Y/N) If yes, provide Roth IRA payments made for this return.	\$	\$
Do you want to make the maximum allowable Keogh/SEP/SIMPLE IRA contribution? (Y/N)		
Keogh/SEP/SIMPLE IRA payments made for this return.	\$	\$
Date Keogh/SIMPLE IRA Plan established.		

INDIVIDUAL TAX ORGANIZER (1040)

ALIMONY PAID

Name of Recipient(s) _____

Social Security Number of Recipient(s) _____

Amount(s) Paid \$ _____

If a divorce occurred this year, enclose a copy of the divorce decree and property settlement.

MEDICAL AND DENTAL EXPENSES (PLEASE NOTE THAT MEDICAL EXPENSES MUST EXCEED 7.5% OF ADJUSTED GROSS INCOME TO BE DEDUCTIBLE)

Description	Amount
Premiums for health and accident insurance including Medicare	
Long-term care premiums: Taxpayer \$ _____ Spouse \$ _____	
Medicine and drugs (prescription only)	
Doctors, dentists, nurses	
Hospitals, clinics, laboratories	
Other:	
Eyeglasses	
Ambulance	
Medical supplies	
Hearing aids	
Lodging and meals	
Travel	
Mileage (number of miles)	
Long-term care expenses	
Payments for in-home care (complete later section on home care expenses)	
Insurance reimbursements received	

Were any of the above expenses related to cosmetic surgery? Yes _____ No _____

INDIVIDUAL TAX ORGANIZER (1040)

DEDUCTIBLE TAXES

Description	Amount
State and local income taxes payments made this year for prior year(s).	
Real estate taxes: Primary residence	
Secondary residence	
Other	
Personal property tax	
Ad valorem taxes on automobiles, trucks, or trailers:	
Sales taxes paid (if applicable)	
Intangible tax	
Other taxes (itemize)	
Foreign tax withheld (may be used as a credit)	

INTEREST EXPENSE

Mortgage interest (enclose Forms 1098).

Payee*	Property**	Amount

*Include address and social security number if payee is an individual.

**Describe the property securing the related obligation, i.e., principal residence, motor home, boat, etc.

Unamortized Points on residence refinancing

Date of Refinance	Loan Term		Total Points

INDIVIDUAL TAX ORGANIZER (1040)

Student Loan Interest

Payee	Purpose	Amount

Investment/Passive Interest

Payee	Investment Purpose	Amount

Business Interest

Payee	Business Purpose	Amount

CONTRIBUTIONS

Cash contributions, for which you have receipts, canceled checks, etc. NOTE: You need to have written acknowledgment from any charity to which you made individual donations of \$250 or more during the year.

Donee	Amount	Donee	Amount

INDIVIDUAL TAX ORGANIZER (1040)

Cash contributions for which no receipts are available

Donee	Amount	Donee	Amount

Expenses incurred in performing volunteer work for charitable organizations:

Parking fees and tolls	\$ _____
Supplies	\$ _____
Meals & Entertainment	\$ _____
Other (itemize)	\$ _____
Automobile Mileage	\$ _____

Other than cash contributions (enclose receipt(s)):

Organization name and address			
Description of property			
Date acquired			
How acquired			
Cost or basis			
Date contributed			
Fair market value (FMV)			
How FMV determined			

CASUALTY OR THEFT LOSSES (Must Exceed 10% of Adjusted Gross Income)

Loss of property by theft or damage to property by fire, storm, car accident, shipwreck, flood, or other "act of God."

	Property 1	Property 2	Property 3
Indicate type of property	<input type="checkbox"/> Business <input type="checkbox"/> Personal	<input type="checkbox"/> Business <input type="checkbox"/> Personal	<input type="checkbox"/> Business <input type="checkbox"/> Personal
Description of property			
Date acquired			
Cost			
Date of loss			
Description of loss			

Is the property on a Presidentially declared disaster area?

Yes _____ No _____

INDIVIDUAL TAX ORGANIZER (1040)

	Property 1	Property 2	Property 3
Was property insured? (Y/N)			
Was insurance claim made? (Y/N)			
Insurance proceeds			
Fair market value before loss			
Fair market value after loss			

MISCELLANEOUS DEDUCTIONS

Description	Amount
Union dues	
Income tax preparation fees	
Legal fees (provide details)	
Safe deposit box rental (if used for storage of documents or items related to income-producing property)	
Small tools	
Uniforms which are not suitable for wear outside work	
Safety equipment and clothing	
Professional dues	
Business publications	
Unreimbursed cost of business supplies	
Employment agency fees	
Necessary expenses connected with producing or collecting income or for managing or protecting property held for producing income not reported on Form 2106 - Employee unreimbursed business expense	
Business use of home - (use "office in home" schedule provided in this organizer)	
Other miscellaneous deductions – itemize	

INDIVIDUAL TAX ORGANIZER (1040)

EMPLOYEE BUSINESS EXPENSES

Expenses incurred by: ☐ Taxpayer ☐ Spouse ☐ Occupation _____

(Complete a separate schedule for each business)

Description	Total Expense Incurred	Employer Reimbursement Reported on W-2	Employer Reimbursement Not on W-2
Travel expenses while away from home:			
Transportation costs			
Lodging			
Meals and entertainment			
Other employee business expenses – itemize			

Automobile Expenses - Complete a separate schedule for each vehicle.

Vehicle description	_____	Total business miles	_____
Date placed in service	_____	Total commuting miles	_____
Cost/Fair market value	_____	Total other personal miles	_____
Lease term, if applicable	_____	Total miles this year	_____
Actual expenses		Average daily round trip commuting distance	_____
Gas, oil	_____	Taxes	_____
Repairs	_____	Tags & licenses	_____
Tires, supplies	_____	Interest	_____
Insurance	_____	Lease payments	_____
Parking	_____	Other	_____

Did you acquire, lease or dispose of a vehicle for business during this year? Yes _____ No _____
If yes, enclose purchase and sales contract or lease agreement.

Did you use the above vehicle in this business less than 12 months? Yes _____ No _____
If yes, enter the number of months _____.

Do you have another vehicle available for personal purposes? Yes _____ No _____

Do you have evidence to support your deduction? Yes _____ No _____

Is the evidence written? Yes _____ No _____

INDIVIDUAL TAX ORGANIZER (1040)

CHILD CARE EXPENSES/HOME CARE EXPENSES

Did you pay an individual or an organization to perform services in the care of a dependent under 13 years old in order to enable you to work or attend school on a full time basis? Yes _____ No _____

Did you pay an individual to perform in-home health care services for yourself, your spouse, or dependents? Yes _____ No _____

If yes, complete the following information:

Name and relationship of the dependents for whom services were rendered

List individuals or organizations to whom expenses were paid during the year. (Services of a relative may be deductible only if that relative is not a dependent and if the relative's services are considered employment for social security purposes.)

Name and Address	ID#	Amount	If Under 18

If payments of \$1,400 or more during the tax year were made to an individual, were the services performed in your home? Yes _____ No _____

EDUCATIONAL EXPENSES

Did you or any other member of your family pay any educational expenses this year? Yes _____ No _____

If yes, was any tuition paid for either of the first two years of post-secondary education? Yes _____ No _____

If yes complete the following and provide Form 1098T from school:

Student Name	Institution	Grade/Level	Amount Paid	Date Paid

Was any of the proceeding tuition paid with funds withdrawn from an educational IRA? Yes _____ No _____

If yes, how much? \$ _____

FIDUCIARY TAX ORGANIZER
FORM 1041

Enclosed is an organizer that I (we) provide to our tax clients in order to assist them in gathering the information necessary to prepare their fiduciary income tax returns.

The Internal Revenue Service matches information returns with amounts reported on income tax returns. A negligence penalty may be assessed where dividends, interest, security sales, and other reported amounts. Accordingly, information returns reflecting amounts reported to the Internal Revenue Service should be submitted with this organizer. Forms such as:

1099 INT	Schedules K1
1099 DIV	(Forms 1065, 1120S, 1041)
1099 B	Annual Brokerage Statements
1099 Misc.	Any other tax information statements
1099 (any other)	

For your convenience there is an engagement letter enclosed which explains the services I (we) will provide to you. Please sign the copy of the engagement letter and return it in the enclosed envelope. Keep the original for your records.

To continue providing quality services on a timely basis, I (we) urge you to collect your information as soon as possible. If information from “passthrough” entities such as partnerships, trusts, and S corporations is the only data you are missing, please send the data you have assembled and forward the missing information as soon as it is available.

The filing deadline for your 2003 Fiduciary Tax Return is _____. In order to meet this filing deadline your completed tax organizer needs to be received no later than _____. Any information received after that date may require that an extension of time be filed for this return.

If an extension of time to file is required, any tax that may be due with this return must be paid with that extension. Any taxes not paid by the filing deadline are subject to late payment penalties and interest when those taxes are actually paid.

I (we) look forward to providing services to you. Should you have any questions regarding any items, please do not hesitate to contact me (us).

FIDUCIARY TAX ORGANIZER (1041)

Trust/Estate Name(s) _____ TIN# _____

Fiduciary Name(s) _____ SS# _____

Address _____

City, Town, or Post Office _____ County _____ State _____ Zip Code _____

Telephone Number _____ Telephone Number _____ Fax Number _____ E-Mail Address _____
Home (____) _____ Office (____) _____ (____) _____

If this is the first year we will prepare the tax return(s), provide the following from your file or your prior accountant:

- Will or trust agreement and amendments, if any
- Tax returns for the prior three years
- Depreciation schedules
- Passive loss carryover information

If not previously furnished, provide copies of:

- Death certificate of decedent, if an estate, or if grantor or beneficiaries are deceased
- Birth certificates of beneficiaries
- Marriage certificates of beneficiaries

1. Is the trustee a U.S. citizen? Yes _____ No _____
2. Has there been a change in trustee(s)? If yes, provide new trustee(s) information. Yes _____ No _____
3. Has there been a change in beneficiaries? If so, provide new beneficiaries information. Yes _____ No _____
4. Is this a foreign trust? Yes _____ No _____
5. If a foreign trust, is the grantor or any beneficiary a U.S. person? Yes _____ No _____
6. Were you the grantor, transferor or beneficiary of a foreign trust? If yes, provide details. Yes _____ No _____
7. Will the address on your current returns be different from that shown on your prior year returns? If yes, provide the new address and date moved. Yes _____ No _____
8. Did you have any interest in, or signature, or other authority over a bank, securities, or other financial account in a foreign country? Yes _____ No _____
9. Were you a resident of, did you receive income from, or own property in more than one state during the year? Yes _____ No _____
10. Do you want any overpayment of taxes applied to next year's estimated taxes? Yes _____ No _____

FIDUCIARY TAX ORGANIZER (1041)

11. Did you have foreign income or pay any foreign taxes? Yes _____ No _____
12. Has the IRS, any state or local taxing agency notified you of changes to a prior year's tax return? Yes _____ No _____
13. Provide copies of all notices/correspondence received from any tax agency. Yes _____ No _____
14. Are you aware of any changes to your income, deductions and credits reported on a prior year's returns? Yes _____ No _____
15. Can the Internal Revenue Service discuss questions about this return with the preparer? Yes _____ No _____
16. Were any distributions made to beneficiaries during the tax year or 65 days following year end? Yes _____ No _____
17. Did the trust receive any gifts? Yes _____ No _____
If yes, (a) how much? _____
(b) from whom? _____

BENEFICIARIES

Full Name	Social Security Number	Address	Date of Birth	U.S. Person	
				Yes	No
				Yes	No
				Yes	No
				Yes	No

If other than a U.S. citizen, provide details.

ESTIMATED TAX PAYMENTS MADE

	FEDERAL		STATE	
	Date Paid	Amount Paid	Date Paid	Amount Paid
Prior year overpayment applied				
1st Quarter				
2nd Quarter				
3rd Quarter				
4th Quarter				

FIDUCIARY TAX ORGANIZER (1041)

INTEREST INCOME - Enclose Form 1099-INT and statements for all interest income including tax-exempt interest income.

Name of Payor per Form 1099 or statement	Banks, S&L, Etc.	Seller Fin. Mtg.	U.S. Bonds, T-Bills	Tax-Exempt In-State	Tax-Exempt Out-of-State
Early Withdrawal Penalties					

DIVIDEND INCOME - Enclose Forms 1099-DIV Forms and statements for all dividends including tax-exempt dividends.

[illegible]

FIDUCIARY TAX ORGANIZER (1041)

MISCELLANEOUS INCOME - List or enclose related Forms 1099 or other forms.

Description	Amount
State and local income tax refund(s)	
Other miscellaneous income	

INCOME FROM TRADE OR BUSINESS

Principal trade or business _____

Business name _____

Business taxpayer identification number _____

Business address _____

Method(s) used to value closing inventory:

___ Cost ___ Lower of cost or market ___ Other (describe) _____ N/A ___

Accounting method:

___ Cash ___ Accrual ___ Other (describe) _____

YES NO

1. Was there any change in determining quantities, costs or valuations between the opening and closing inventory? If yes, attach explanation. _____
2. Were any assets sold during the year? If yes, list assets sold including date acquired, date sold, sales price, basis and gain or loss. _____
3. Were any assets purchased during the year? If yes, list assets acquired, including date placed in service and purchase price, including trade-in. Include copies of purchase invoices. _____

FIDUCIARY TAX ORGANIZER (1041)

YES NO

4. List states in which business was conducted.

5. Provide copies of certification for members of target groups and associated wages paid that qualify for the Work Opportunities Credit.

Attach a financial statement of the business or complete the following worksheet.
Complete a separate schedule for each business.

Description	Amount
Part I - Income	
Gross receipts or sales	
Returns and allowances	
Other income (List type and amount)	
Part II - Cost of Goods Sold	
Inventory at beginning of year	
Purchases less cost of items withdrawn for personal use	
Cost of labor	
Materials and supplies	
Other costs (List type and amount)	
Inventory at end of year	
Part III - Expenses	
Advertising	
Bad debts from sales or services	
Car and truck expenses (Provide details on separate sheet)	
Commissions and fees	
Depletion	
Depreciation (provide depreciation schedules)	
Employee benefit programs (other than Pension and Profit Sharing plans shown below)	
Insurance (other than health)	

FIDUCIARY TAX ORGANIZER (1041)

Interest:	
a. Mortgage (paid to banks, etc.)	
b. Other	
Legal and professional services	
Office expense	
Pension and profit-sharing plans (employee's portion only)	
Rent or lease:	
a. Vehicles, machinery, and equipment	
b. Other business property	
Repairs and maintenance	
Supplies	
Taxes and licenses	
State Taxes	
Travel, meals, and entertainment:	
a. Travel	
b. Meals and entertainment	
Utilities	
Wages	
Club dues:	
a. Civic club dues	
b. Social or entertainment club dues	
Other expenses (list type and amount)	

FIDUCIARY TAX ORGANIZER (1041)

CAPITAL GAINS AND LOSSES - Enclose all Forms 1099-B and 1099-S. If you want us to complete the following information furnish all your brokerage account statements and transaction slips, include current year sales and the corresponding purchases.

Enter sales reported to you on Forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss)

Enter any sales **NOT** reported on Forms 1099-B and 1099-S:

Description	Date Acquired	Date Sold	Sales Proceeds	Cost or Basis	Gain (Loss)

FIDUCIARY TAX ORGANIZER (1041)

RENTAL INCOME - Complete a separate schedule for each property.

Description and location of property _____

Does the trustee actively participate in the rental activity? Yes _____ No _____

Residential property? Yes _____ No _____

Personal use? Yes _____ No _____

If "yes," please complete the information below.

Number of days the property was occupied by a related party not paying rent at the fair market value. _____

Number of days the property was not occupied. _____

Income:			
Rents received		Other income	
Expenses:			
Mortgage interest		Legal	
Other interest		Cleaning	
Insurance		Assessments	
Repairs and maintenance		Utilities	
Travel		Other (itemize)	
Advertising			
Taxes			

If this is the first year we are preparing your return, provide depreciation records.

If this is a new property, provide the closing statement.

List below any improvements or assets purchased during the year?

Description	Date placed in service	Cost

If the property was sold during the year, provide the closing statement. (HUD 1)

FIDUCIARY TAX ORGANIZER (1041)

INCOME FROM PARTNERSHIPS, ESTATES, TRUSTS, LLCs OR S CORPORATIONS - Enclose all schedule K-1 (Both Federal and State) forms received to date. Also list below all K-1 forms not yet received:

Name	Source Code*	Federal ID #

*Source Code: P = Partnership E = Estate/Trust F = Foreign Trust L = LLC S = S Corporation

CONTRIBUTIONS

Cash contributions for which you have receipts, canceled checks, etc.

NOTE: You need to have written acknowledgment from any charity to which you made individual donations of \$250 or more during the year.

Donee	Amount	Donee	Amount

FIDUCIARY TAX ORGANIZER (1041)

Cash contributions for which no receipts are available:

Donee	Amount	Donee	Amount

Other than cash contributions:

Organization name and address			
Description of property			
Date acquired			
How acquired			
Cost or basis			
Date contributed			
Fair market value (FMV)			
How FMV determined			

INTEREST EXPENSE

Mortgage interest (attach Forms 1098).

Payee*	Property**	Amount

*Include address and Social Security number if payee is an individual.

**Describe the property securing the related obligation, i.e., principal residence, motor home, boat, etc.

FIDUCIARY TAX ORGANIZER (1041)

Unamortized Points (From property refinance if applicable)

Payee	Purpose	Amount

Investment Interest

Payee	Investment Purpose	Amount

Business Interest—include with Schedule C information

Payee	Business Purpose	Amount

FIDUCIARY TAX ORGANIZER (1041)

DEDUCTIBLE TAXES

Description	Amount
State and local income tax payments made this year for prior year(s).	
Real estate taxes:	
Personal property tax	
Intangible tax	
Other taxes (itemize)	
Foreign tax withheld (may be used as a credit)	

MISCELLANEOUS DEDUCTIONS

Description	Amount
Income tax preparation fees	
Legal fees (provide details)	
Safe deposit box rental (if used for storage of documents or items related to income-producing property)	
Fiduciary Fees	
Investment Fees	
Other miscellaneous deductions - itemize	

PARTNERSHIP TAX ORGANIZER
FORM 1065
(SHORT VERSION)

Organization Name _____	Tax Period _____
Address _____	Federal ID # _____
_____	State ID # _____

Provide a general ledger, trial balance, depreciation schedules, balance sheet and profit and loss statement. In addition, provide the following information:

	<u>DONE</u>	<u>N/A</u>
1. Copies of correspondence with tax authorities regarding changes to prior year returns.	_____	_____
2. Details of partner ownership changes.	_____	_____
3. For each partner, provide ID #, address, percentage of ownership, profit/loss %, and general or limited classification. Identify the Tax Matters Partner.	_____	_____
4. Schedule of all payments or distributions to or for partners including descriptions, amounts and the accounts to which these amounts have been posted.	_____	_____
5. Schedule of loans to/from partners and related parties including interest rates and payment schedules.	_____	_____
6. Schedule of all fringe benefits paid on behalf of partners and indicate which benefits have been included in their guaranteed payments.	_____	_____
7. Detailed analysis of entries in prepaid and accrued expense accounts.	_____	_____
8. Forms 1099, 941, 940, 5500, 1042, 8804, 8805, 5471, and W-2 that have been filed.	_____	_____
9. Forms 1099 and K1 Schedules that have been received.	_____	_____
10. Schedule of all interest and dividend income.	_____	_____
11. Schedule of assets acquired and/or sold during the year including date acquired, date sold, sales or purchase price, including any trade-in allowance.	_____	_____
12. Copy of the inventory uniform capitalization computation.	_____	_____
13. Schedule of contributions.	_____	_____
14. Details of any lobbying expenses.	_____	_____
15. Schedule of expenses such as penalties and life insurance premiums.	_____	_____
16. Schedule of any club dues paid.	_____	_____
17. Vehicle and mileage data for partnership owned passenger vehicles.	_____	_____

PARTNERSHIP TAX ORGANIZER (1065)
(SHORT VERSION)

- | | <u>DONE</u> | <u>N/A</u> |
|---|-------------|------------|
| 18. Can the Internal Revenue Service discuss questions about this return with the preparer?
Yes ____ No ____ | | |
| 19. Details of miscellaneous expenses. | _____ | _____ |
| 20. Details of total of meal and entertainment expenses in excess of \$200.00 | _____ | _____ |
| 21. List each type of trade or business activity or rental activity and indicate the date started or acquired. | _____ | _____ |
| 22. List of states in which activities are conducted. | _____ | _____ |

COMMENTS OR EXPLANATIONS

PARTNERSHIP TAX ORGANIZER
FORM 1065
(EXPANDED VERSION)

ORGANIZATION NAME _____

ADDRESS _____

TELEPHONE # _____

FAX # _____

E-MAIL ADDRESS _____

TAX YEAR ENDING _____

FEDERAL ID # _____

STATE ID # _____

Enclosed is an organizer that I (we) provide to our tax clients in order to assist them in gathering the information necessary to prepare their current year partnership tax returns.

The Internal Revenue Service matches information returns with amounts reported on income tax returns. A negligence penalty may be assessed where income is underreported. Accordingly, all forms 1099, Schedules K-1 and other information returns reflecting amounts reported to the Internal Revenue Service should be submitted with this organizer.

For your convenience there is an engagement letter enclosed which explains the services I (we) will provide to the partnership. Please sign the copy of the engagement letter and return it in the enclosed envelope. Keep the original for your records.

The filing deadline for your 2004 partnership return is April 15, 2005 your completed tax organizer needs to be received no later than March 21, 2005. Any information received after that date may require that an extension of time be filed for this return.

If an extension of time to file is required, any tax that may be due with this return must be paid with that extension. Any taxes not paid by the filing deadline are subject to late payment penalties and interest when those taxes are actually paid.

I (we) look forward to providing services to you. Should you have any questions regarding any items, please do not hesitate to contact me (us).

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, the following information will be needed:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
100) GENERAL INFORMATION			
101) If this is the first year we will prepare the tax return(s), provide the following from your file or your prior accountant:	_____	_____	_____
.1) Partnership agreement	_____	_____	_____
.2) Tax returns for the prior three years	_____	_____	_____
.3) Depreciation schedules	_____	_____	_____
.4) Partner basis carryforward schedule	_____	_____	_____
.5) Partner buy/sell agreement	_____	_____	_____
.6) If the partnership elected a fiscal year end, provide a schedule of section 444 tax deposits and Form 8716.	_____	_____	_____
.7) Section 704(b) capital account reconciliation	_____	_____	_____
102) Has the partnership been notified of any changes to previous returns by any taxing authority? If yes, provide copies of all correspondence.	_____	_____	_____
103) Have there been any amendments to the partnership agreement? If yes, provide copies of amendments since the last year.	_____	_____	_____
104) Provide the following information for all partners:			
.1) Name	_____	_____	_____
.2) Address	_____	_____	_____
.3) Social Security/Taxpayer Identification Number	_____	_____	_____
.4) General partner or limited partner	_____	_____	_____
.5) Type of entity	_____	_____	_____
.6) Domestic or foreign	_____	_____	_____
.7) Profit sharing percentage	_____	_____	_____
.8) Loss sharing percentage	_____	_____	_____
.9) Percentage ownership	_____	_____	_____
.10) Changes in partner's ownership interest after 10/22/86 (if not previously provided)	_____	_____	_____
105) Which general partner or LLC member should be designated as the Tax Matters Partner, if applicable? _____			
106) Has there been a change in ownership since last year? If yes, provide the following:	_____	_____	_____
.1) Date of Transfer _____ / _____ / _____			
.2) Type of Transfer:			
a) sale			
b) gift			
c) inheritance			

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

.3) Sale price or fair market value of partnership interest transferred. (Include FMV from estate return if transfer is due to death.)

.4) Copy of Form 8308, if applicable. (Report of a sale or exchange of certain partnership interest.)

107) Did any of the partners' taxable years change during the year? If yes, attach a schedule detailing the change. _____

108) List the names and telephone numbers of the partnership's advisors:

	Name & Address	Telephone #	Fax #	E-Mail Address
Attorney				
Banker				
Insurance				
Broker				

109) Does the partnership have any of the following employee benefit plans?

.1) Qualified retirement plan(s)?

If yes, are we to prepare 5500 series form(s)?

Number of plans _____

Are we to compute the contribution? _____

.2) SEP or SIMPLE plan?

If yes, are we to compute the contribution? _____

.3) Cafeteria plan?

If yes, are we to prepare Form 5500? _____

.4) Non-qualified retirement plan(s)?

Number of plans ____ (describe)

If yes, has the "one time only" filing with the Department of Labor been done? _____

.5) Other benefit plans not described above?

If yes, describe:

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

110) Describe the principal business activity of the partnership:

.1) Did the partnership acquire or dispose of a business or business segment during this tax year? If yes, attach a copy of the contract or agreement.

.2) Did the partnership engage in any new activities during this tax year? If yes, attach a description of the new business.

.3) Did the partnership discontinue operations for this year?

111) Does the partnership provide fringe/welfare benefits to employees or partners? If yes, provide a list of benefits provided.

112) Did the partnership include taxable fringe/welfare benefits such as health insurance, group life insurance, educational assistance, expense allowances and personal use of company vehicles as compensation in employee's Forms W-2 and, if applicable, subject such amounts to payroll taxes?

113) Provide a schedule, by partner, of fringe benefits paid on behalf of each partner such as medical, life insurance, disability and housing. Indicate which accounts have been charged.

114) Provide copies of Forms 1099, 941, 940, 1042, 8804, 8805, 5471, 5500 and W-2 that have been filed.

115) Provide copies of Forms 1009s and Schedules K1 that have been received.

116) Provide schedule of interest and dividend income.

117) Did the partnership have loans with partners and/or other related parties during the tax year?

If yes, attach a schedule indicating the amount of the loan, date of transaction, interest rate and payments. Also, attach a copy of the note if not previously provided.

118) Should the address shown on the return be different from last year? If so, what address should be shown on the return?

119) Is the partnership a partner in another partnership? If yes, provide a copy of other partnership tax return(s).

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

120) Circle method of accounting for tax purposes:

Cash Accrual Other (Describe) _____

121) Did the partnership establish any new general ledger accounts during the tax year? If yes, attach a list with a brief explanation of each account. _____

122) Did the partnership post any entries to the partnership capital accounts during the year? If yes, provide detail of the activity. _____

123) Was there a distribution of property or a transfer (for example, by sale or death) of a partnership interest during this tax year? _____

If marketable securities were distributed, provide the date of distribution and fair market value at distribution dates(s). _____

124) Has the partnership ever elected to "step up" the basis of any assets in connection with the death of a partner or a change in ownership? (754 election) _____

125) Did the partnership, at any time during the tax year, have an interest in a foreign bank account? _____

126) Was the partnership the grantor of, or transferor to, a foreign trust during the tax year? _____

127) Does the partnership do business in more than one state? If yes, list the states _____

.1) Provide copies of supporting schedules reflecting the three factor (property, payroll, sales) multistate apportionment formula _____

.2) Provide a schedule showing any amounts for which there are known timing or treatment differences between federal and applicable state reporting. _____

128) How many additional copies of the return do you need? _____

129) Is this a final return? _____

130) Can the Internal Revenue Service discuss questions about this return with the preparer? _____

200) INCOME

201) Does the partnership engage in more than one trade or business activity? If yes, provide a list and note those started or acquired after 10/22/86. _____

202) Does the partnership engage in any rental real estate activity? If yes, provide a list and note those started or acquired after 10/22/86. _____

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

- 203) Did the partnership receive interest income from the following sources? If yes, indicate the amount. _____

U.S. agencies _____
 U.S. government _____
 Tax exempt-out of state _____
 Tax exempt-in state _____
 Tax exempt-private activity _____

- 204) Did the partnership sell any stocks, bonds or securities during the year? If yes, complete the following: _____

Description of Securities Sold	Dates Acquired	Cost or Basis Plus Selling Expenses	(Trade Date) Date Sold	Total Sales Price

- 205) Did the partnership own any securities that became worthless during the year? If yes, provide details. _____

- 206) Did the partnership acquire any "Qualified Small Business Stock?" _____

- 207) Did the partnership own any mutual funds? If yes, provide year-end statement(s). _____

- 208) During the tax year, did the partnership sell or dispose of any assets used in the business? If yes, provide a schedule listing: _____

- Description of asset sold
- Date sold
- Sales price
- Selling expenses
- Date acquired
- Original cost or basis
- Depreciation claimed in prior years

- 209) Provide detail of all items greater than \$ _____ in the miscellaneous income account. _____

Description	Amount

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

210) Did the partnership have any sales during the year that qualify for the installment method of reporting? If yes, provide a copy of the agreement, the principal and interest received, and the beginning of year and end of year contract balances.

211) Were there any sales or exchanges during the year between the partnership and a partner? If yes, provide a detailed listing.

212) Did the partnership engage in any bartering activity during the year? If yes, provide a schedule of all such activities.

300) DEDUCTIONS

301) Were there any payments to partners during the year for services or for the use of capital determined without regard to income? If yes, provide the details below:

Partner	Description	Amount

302) Do the Uniform Capitalization Rules under § 263A related to items such as inventory and construction apply? If yes, provide copies of all schedules reflecting the calculation of the amount of general and administrative expenses required to be capitalized in ending inventory or associated with self-constructed assets.

303) List all charitable contributions made or accrued during the tax year:

NOTE: You need to have written acknowledgment from any charity to which individual donations of \$250 or more were made during the year.

Organization	Amount

304) Did the partnership make political contributions during the tax year?

.1) If yes, enter the amount. \$ _____

.2) If yes, enter to which accounts were the contributions posted.

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

305) Did you incur any expenses to influence legislation (lobbying)? If yes, provide a schedule of "lobbying expenses" and indicate to which accounts these expenses were posted. _____

306) Did the partnership pay life insurance premiums (other than group term life) for any partner(s)? If yes, provide the following for each policy: _____

- | | |
|------------------|------------------------------------|
| • Face amount | • Premium paid |
| • Insured | • Cash surrender value at year end |
| • Policy owner | • Loan balance at year end |
| • Beneficiary | • Interest paid on policy loan |
| • Type of policy | |

To which general ledger accounts have the payments been posted?

307) Did the partnership pay any penalties/fines during the tax year? If yes, list amount(s) and indicate the reason for the penalty/fine. _____

Description	Amount

308) Did the partnership acquire any assets during the tax year? If yes, provide a schedule of assets purchased including the date placed in service, and a copy of the purchase invoice. Include any trade-in information. _____

309) Did any partners contribute any assets to the partnership during the year? If yes, provide a schedule of such assets received including date placed in service and partner's basis in such assets and fair market value of such asset. _____

310) Does the partnership own or lease any vehicles? If yes, provide the following information for each vehicle (NOTE: certain exceptions may apply for taxpayers with more than five vehicles): _____

- Vehicle description
- Date placed in service
- Business miles
- Commuting miles
- Other personal miles
- Total miles
- Average daily round trip commuting distance

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

- .1) Does the partnership have evidence to support the claimed business use?
If yes, is the evidence written? _____
- .2) Were the vehicles available for personal use during off-duty hours? _____
- .3) Were the vehicles used primarily by a more than 5% owner or related person? _____
- .4) Is another vehicle available for personal use? _____
- .5) Provide a copy of the lease for any leased vehicles. If not available, provide the following: _____
- Date of lease
 - Fair market value at inception
 - Term of lease
 - Lease payments

311) Regarding partnership policy for vehicles:

- .1) Does the partnership maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by employees? _____
- .2) Does the partnership maintain a written policy statement that prohibits personal use of vehicles, excluding commuting, by employees? _____
- .3) Does the partnership treat all use of vehicles by employees as personal use? _____
- .4) Does the partnership provide more than five vehicles to employees and retain the information received from employees concerning the use of vehicles? _____
- .5) Does the partnership require or maintain copies of vehicle logs? _____

312) Are computers, cellular phones or other property used for personal purposes? If yes, complete the following: _____

Description	Date Placed in Service	Business Use %	Cost or Basis

- .1) Does the partnership have evidence to support the business use claimed? _____
- .2) If yes, is the evidence written? _____

PARTNERSHIP TAX ORGANIZER (1065)
(EXPANDED VERSION)

313) Did the partnership have any meal or entertainment expenses? If yes, which account(s) were these items posted to? _____

314) Did the partnership pay any social or entertainment club dues? If yes, provide the amounts \$ _____ and to which account these items were posted. _____

315) Schedule below all items in the miscellaneous expense account greater than \$ _____. _____

Description	Amount

316) Will all compensation related accruals (including vacation pay) be paid within 2½ months of year-end? If no, provide details of unpaid amounts. _____

317) Provide copies of certification for members of target groups and associated wages paid that qualify for the Work Opportunities Credit _____

318) Provide the following information for all items of interest expense:

Payee	Purpose Of Loan	Recourse/ Non-Recourse	Year End Principal Balance	Interest Expense

319) Were there any accruals of interest, compensation or other expenses to partners at year-end? If yes, provide detail. _____

CORPORATION TAX ORGANIZER (1120)
(SHORT VERSION)

Corporation Name _____	Tax Period _____
Address _____	Federal ID# _____
_____	State ID# _____

Provide a general ledger, trial balance, depreciation schedules, balance sheet and profit and loss statement. In addition, provide the following information:

	<u>DONE</u>	<u>N/A</u>
1. Copies of correspondence with tax authorities regarding changes to prior year(s) returns.	_____	_____
2. Details of changes in stock ownership.	_____	_____
3. For each corporate officer provide SS#, compensation, percentage of ownership and time devoted to business.	_____	_____
4. Schedule of loans to/from shareholders, officers and related parties including interest rates and payment schedules.	_____	_____
5. Detailed analysis of entries in prepaid, accrued, and income tax expense accounts, including dates and amounts of all federal, state and local income tax payments and refunds.	_____	_____
6. Copies of Forms 1099, 941, 940, 5500, 1042, 5471, 5472, and W-2 that have been filed.	_____	_____
7. Copies of Forms 1099 and Schedules K1 that have been received.	_____	_____
8. Schedule of all interest and dividend income.	_____	_____
9. Schedule of assets acquired and/or sold during the year including date acquired, date sold sales or purchase price, including any trade-in allowance.	_____	_____
10. Copy of the inventory uniform capitalization computation.	_____	_____
11. Schedule of contributions.	_____	_____
12. Detail of any lobbying expenses.	_____	_____
13. List potential non-deductible expenses, such as penalties and life insurance premiums.	_____	_____
14. Schedule of any club dues paid.	_____	_____
15. Vehicle and mileage data for company-owned passenger vehicles.	_____	_____
16. Details of miscellaneous income/expense accounts.	_____	_____
17. Furnish total of meal and entertainment expenses.	_____	_____
18. List of activities conducted in other states.	_____	_____
19. Can the Internal Revenue Service discuss questions about this return with the preparer? Yes ____ No ____		

S CORPORATION TAX ORGANIZER (1120S)
(SHORT VERSION)

Corporation Name _____	Tax Period _____
Address _____	Federal ID# _____
_____	State ID# _____

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, provide the following information:

	<u>DONE</u>	<u>N/A</u>
1. Copies of correspondence with tax authorities regarding changes to prior year(s) returns.	_____	_____
2. Details of changes in stock ownership.	_____	_____
3. For each shareholder provide ID#, compensation, percentage of ownership, time devoted to business, date ownership acquired and detail of distributions received.	_____	_____
4. Schedule of all fringe benefits paid on behalf of more than 2% shareholders and indicate which benefits have been included in their Form W-2.	_____	_____
5. Schedule of loans to/from shareholders, officers and related parties including interest rates and payment schedules.	_____	_____
6. Schedule of built-in gains.	_____	_____
7. Detailed analysis of entries in prepaid, accrued, and income tax expense accounts, including dates and amounts of all federal, state and local income tax payments and refunds.	_____	_____
8. Copies of Forms 1099, 941, 940, 5500, 1042, 5471, 5472, and W-2 that have been filed.	_____	_____
9. Copies of Forms 1099 and K1 Schedules that have been received.	_____	_____
10. Schedule of all interest and dividend income.	_____	_____
11. Schedule of assets acquired and/or sold during the year including date acquired, date sold sales or purchase price, including any trade-in allowance.	_____	_____
12. Copy of the inventory uniform capitalization computation.	_____	_____
13. Schedule of contributions.	_____	_____
14. Detail of any lobbying expenses.	_____	_____
15. Schedule of any club dues paid.	_____	_____
16. List potential non-deductible expenses such as penalties and life insurance premiums.	_____	_____
17. Vehicle and mileage data for company-owned passenger vehicles.	_____	_____
18. Details of miscellaneous income/expense accounts.	_____	_____
19. Furnish total of meal and entertainment expenses.	_____	_____
20. List each type of trade or business activity or rental activity and indicate the date started or acquired.	_____	_____
21. List of activities conducted in other states.	_____	_____
22. Can the Internal Revenue Service discuss questions about this return with the preparer?		
Yes _____ No _____		

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

ORGANIZATION NAME _____

ADDRESS _____

TELEPHONE # _____

FAX # _____

E-MAIL ADDRESS _____

TAX YEAR ENDING _____

FEDERAL ID # _____

STATE ID # _____

Enclosed is an organizer that I (we) provide to our tax clients in order to assist them in gathering the information necessary to prepare their current year tax return.

The Internal Revenue Service matches information returns with amounts reported on income tax returns. A negligence penalty may be assessed where income is unreported. Accordingly, all forms 1099, Schedules K-1 and other information returns reflecting amounts reported to the Internal Revenue Service should be submitted with this organizer.

For your convenience there is an engagement letter enclosed which explains the services that I (we) will provide to the corporation. Please sign the copy of engagement letter and return it in the enclosed envelope. Keep the original for your records.

Your 2004 corporate income tax returns are due on _____. In order to meet this filing deadline your completed tax organizer needs to be received no later than _____. Any information received after this date may require that an extension of time be filed for this return.

If an extension of time is required, any tax that may be due with this return must be paid with that extension. Any taxes not paid by the filing deadline are subject to late payment penalties and interest when those taxes are actually paid.

I (we) look forward to providing services to you. Should you have any questions regarding any items, please do not hesitate to contact me (us).

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

Provide a general ledger, trial balance, depreciation schedules, balance sheet, and profit and loss statement by activity. In addition, the following information is required:

YES NO N/A

100) GENERAL INFORMATION

101) If this is the first year we will prepare the tax return, provide the following from your file or your prior accountant:

- | | | | |
|--|-------|-------|-------|
| .1) Tax returns for the prior three years | _____ | _____ | _____ |
| .2) Depreciation schedules | _____ | _____ | _____ |
| .3) List of all investments | _____ | _____ | _____ |
| .4) All tax carryforward schedules such as NOL, tax credits, contributions, etc. | _____ | _____ | _____ |
| .5) Copy of buy/sell agreement | _____ | _____ | _____ |
| .6) Copies of rulings issued by the IRS or other tax authorities. | _____ | _____ | _____ |
| .7) Copies of notices or changes to prior returns by the IRS or any other tax authorities. | _____ | _____ | _____ |

S CORPORATION ONLY

- | | | | |
|--|-------|-------|-------|
| .8) Provide a copy of the S corporation approval. | _____ | _____ | _____ |
| .9) Provide a list of all shareholders and provide the following information: | _____ | _____ | _____ |
| (a) Name | | | |
| (b) Address | | | |
| (c) Tax ID# | | | |
| (d) Type of entity | | | |
| (e) Number of shares | | | |
| .10) If the corporation was a C corporation prior to making the selection, provide a copy of the schedule of net built-in gains. | _____ | _____ | _____ |
| .11) Has the corporation elected a fiscal year end? If yes, provide a schedule of section 444 tax deposits and a copy of Form 8716. | _____ | _____ | _____ |
| .12) Does the corporation engage in more than one trade or business activity? If yes, provide details. | _____ | _____ | _____ |
| .13) Does the corporation engage in any rental activity? If yes, provide details. | _____ | _____ | _____ |
| 102) Should the address shown on the return be different from last year? If so, what address should be shown on the return? | _____ | _____ | _____ |
| 103) Has the corporation been notified of any changes to previous returns by any taxing authority? If yes, provide copies of all correspondence. | _____ | _____ | _____ |
| 104) Has the corporation received any notices or correspondence from the IRS or any other tax agency? If yes, provide copies. | _____ | _____ | _____ |

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

105) If ownership changed during the year, has there been a change in ownership percentages? Provide a schedule of all changes, including dates and number of shares.

106) Have there been any changes to the shareholders' buy/sell agreement? If yes, provide a copy.

107) Has the corporation updated its minute book for the year? If yes, provide copies.

108) Provide the names and telephone numbers of the corporation's advisors:

	Name and Address	Telephone #	Fax #	E-Mail
Attorney				
Banker				
Insurance				
Broker				

109) Describe the principal business activity of the corporation:

.1) Did the corporation purchase or sell a business or business segment during this year? If yes, provide a copy of contract or agreement.

.2) Did the corporation engage in any new activities during the year? If yes, describe new business on an attached sheet.

.3) Did the corporation discontinue operations this year?

110) Does the corporation have any of the following employee benefit plans?

.1) Qualified retirement plan(s)?
If yes, are we to prepare Form 5500?
Are we to compute the contribution?

.2) SEP or SIMPLE Plan?
If yes, are we to compute the contribution?

.3) Cafeteria plan?
If yes, are we to prepare Form 5500?

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
.4) Non-qualified retirement plan(s)?			
Number of plans ____ (describe)			

If yes, has the "one time only" filing with the Department of Labor been done?			
.5) Other benefit plans not described above?			
If yes, describe:			

111) Did the corporation include taxable fringe/welfare benefits such as health insurance, group term life insurance, educational assistance, expense allowances and personal use of corporate owned vehicles as compensation in employee Form W-2 and, if applicable, subject such amounts to payroll taxes?			
112) At year end, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? If yes, provide a copy of that corporation's current tax return.			
Ownership percentage: _____			
113) At year-end did any corporation, individual, partnership, trust or estate own, directly or indirectly, 50% or more of the corporation's voting stock? If yes:			
.1) Name: _____			
Address: _____			

ID#: _____			
Ownership percentage: _____			
.2) Was such owner a person other than a U.S. citizen?			
114) Do the shareholders owning 80% or more of this corporation own 80% or more of any other corporation(s)? If yes, provide a copy of the other corporate tax returns.			
115) Is this corporation a shareholder of any foreign corporation? If yes, identify each corporation.			
116) Is this corporation a partner in any foreign corporation? If yes, identify each corporation.			
117) Did the corporation at any time during the year have an interest in a foreign bank account? If yes, provide details.			
118) Was the corporation the grantor or transferor to a foreign trust during the year? If yes, provide details.			

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

119) During this taxable year, did the corporation pay dividends? If yes, attach a schedule reflecting date declared; date paid, amount and form of payment (cash, other).

120) Did one foreign person, at any time during the tax year, own directly or indirectly, 25% or more of the total voting power or value of all classes of stock of the corporation? If yes:

.1) Enter the percentage owned _____

.2) Enter the owner's country _____

121) List income tax deposits below in order of date paid:

	Prior Year Overpayment Applied	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Extension
FEDERAL						
Date Paid						
Amount	\$					
STATE						
Date Paid						
Amount	\$					

122) Provide a detailed schedule of the activity in the general ledger accounts relating to income tax payments, accruals and expense.

123) Circle method of accounting for tax purposes:

Cash Accrual Other (Describe) _____

124) Did the corporation establish any new general ledger accounts during the year? If yes, provide a list with a brief explanation of each new account.

125) Did the corporation post any entries to the retained earnings account during the year? If yes, provide details of the activity.

126) Provide copies of Forms 1099, 941, 940, 5500, 1042, 5471, 5472 and W-2 that have been filed.

127) Provide copies of Forms 1099 and K1 Schedules that have been received.

128) Schedule of interest and dividend income.

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

129) Did the corporation have loans to/from shareholder(s) and other related parties during the tax year? If yes, provide a schedule indicating the amount of the loan, date of transaction, interest rate and payments. Also, provide a copy of the note if not previously provided.

130) Did the corporation refinance or restructure any outstanding debt this year? If yes, provide documentation.

131) Does the corporation do business in more than one state? If yes, list the states that the corporation did business in during this year:

.1) Provide copies of supporting schedules reflecting the three factor (property, payroll, sales) multistate apportionment formula.

.2) Provide a schedule showing any amounts for which there are known timing or treatment differences between federal and state reporting.

132) Can the Internal Revenue Service discuss questions about this return with the preparer?

133) How many additional copies of the return do you need? _____

200) INCOME

201) Did the corporation receive interest income from the following sources? If yes, list total amount.

U.S. agencies _____

U.S. government _____

Tax exempt in state _____

Tax exempt out of state _____

Tax exempt private activity _____

202) Did the corporation sell any stocks, bonds, or securities during the year? If yes, complete the following:

Description of Securities Sold	Date Acquired	Cost or Basis Plus Selling Expenses	(Trade Date) Date Sold	Total Sales Price

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

203) Did the corporation own securities that became worthless during the year? If yes, provide details.

204) Did the corporation sell or dispose of any assets used in its business? If yes, provide a schedule listing:

- Description of asset sold
- Date sold
- Sales price
- Selling expenses
- Date acquired
- Original cost or basis
- Depreciation claimed in prior years

205) Provide detail of all items greater than \$_____ in the miscellaneous income account.

Description	Amount

206) Did the corporation receive dividend income this year? If yes, provide details:

207) If dividends were received from mutual funds, provide the year-end statements.

208) Did the corporation make any sales qualifying for the installment method of reporting?

If yes, attach a copy of the agreement, the principal and interest received, and the beginning of the year and end of the year contract balances.

209) Were there any sales or exchanges during the year between the corporation and a shareholder? If yes, provide a detailed schedule.

210) Did the corporation engage in any bartering activity during the year? If so, provide a schedule of all such activities.

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

300) DEDUCTIONS

301) Information regarding corporate officers:

- .1) Compensation exceeding \$1,000,000 for any officer, provide details about amounts paid in performance based bonus, if any.

Name	Social Security Number	% Time Devoted to Business	% Stock Owned		Compensation
			Common	Preferred	

302) Fiscal year Personal Service Corporation (PSC):

- .1) Is the PSC on a fiscal year? If yes, provide the following information:

Name of Officer/Shareholder	Compensation from Beg. of Fiscal Year to End of Calendar Year	Compensation from Beg. of Subsequent Calendar Year to End of Fiscal Year	Total Compensation

- .2) If the PSC has elected a fiscal year end, provide a copy of an approved election (Form 8716) if not previously provided.

303) Do the Uniform Capitalization Rules under section 263A related to items such as inventory and construction apply? If yes, provide copies of all schedules supporting the calculation of the amount of general and administrative expenses required to be capitalized in ending inventory or associated with self-constructed assets.

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

304) List charitable contributions made or accrued during the year:

NOTE: You need to have written acknowledgment from any charity to which individual donations of \$250 or more were made during the year.

Organization	Amount

.1) Did the corporation have an accrued charitable contribution at year-end? If yes, provide a copy of minutes authorizing contribution.

.2) Did the corporation make a charitable contribution of inventory or property? If yes, provide details. Provide appraisal of value if the value exceeds \$5,000.

.3) Did the corporation make political contributions during this tax year? If yes, enter amount \$_____. (Please note corporate political contributions are illegal.)

305) Did you incur any expenses to influence legislation and "lobbying?" If yes, provide a schedule of "lobbying expenses" and indicate which accounts these expenses were posted to.

306) Was any computer equipment donated to educational institutions? If yes, provide details.

307) Does the corporation pay life insurance premiums (other than group term life) for officers of the corporation? If yes, provide the following for each policy:

- Face amount
- Premium paid
- Insured
- Cash surrender value at year end
- Policy owner
- Loan balance at year end
- Beneficiary
- Interest paid on policy loan
- Type of policy

To which general ledger accounts have the payments been posted?

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

- 308) Did the corporation pay penalties/fines during the tax year? If yes, list amount(s) and indicate the reason for the penalty/fine.

Description	Amount

- 309) Did the corporation acquire any assets during the tax year? If yes, provide a schedule of assets purchased including the date placed in service and a copy of the purchase invoice. Include any trade-in information.

- 310) Does the corporation wish to use accelerated depreciation methods?
Does the corporation wish to use first year section 179 depreciation?

- 311) Does the corporation own or lease any passenger vehicles? If yes, provide the following information for each vehicle (note certain exceptions may apply for companies with more than five vehicles):

- Vehicle description
- Other personal miles
- Date placed in service
- Total miles
- Business miles
- Average daily round trip commuting distance
- Commuting miles

- .1) Does the corporation have evidence to support the claimed business use?
If yes, is the evidence written?

- .2) Were the vehicles available for personal use during off-duty hours?

- .3) Were the vehicles used primarily by a more than 5% owner or related person?

- .4) Is another vehicle available for personal use?

- .5) Provide a copy of the lease for any leased vehicles. If not available, provide the following:

- Date of lease
- Fair market value at inception
- Term of the lease
- Lease payments

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

YES NO N/A

312) Regarding corporate policy for vehicles:

- | | | | |
|--|-------|-------|-------|
| .1) Does the corporation maintain a written policy statement that prohibits all personal use of vehicles, <u>including</u> commuting, by employees? | _____ | _____ | _____ |
| .2) Does the corporation maintain a written policy statement that prohibits personal use of vehicles, <u>excluding</u> commuting, by employees? | _____ | _____ | _____ |
| .3) Does the corporation treat all use of vehicles by employees as personal use? | _____ | _____ | _____ |
| .4) Does the corporation provide more than five vehicles to employees and retain the information received from employees concerning the use of the vehicles? | _____ | _____ | _____ |
| .5) Does the corporation require or maintain copies of vehicle logs? | _____ | _____ | _____ |

313) Are computers or cellular phones or other listed property used by employees for personal purposes? If "yes, complete the following:

Description	Date Placed in Service	Business Use %	Cost or Basis

- | | | | |
|---|-------|-------|-------|
| .1) Does the corporation have evidence to support the business use claimed? | _____ | _____ | _____ |
| .2) If yes, is evidence written? | _____ | _____ | _____ |

314) Did the corporation have any meal and/or entertainment expenses? If yes, to which account(s) were these items posted? _____

_____ _____ _____

315) Did the corporation pay any club dues? If yes, to which account were these items posted?

_____ _____ _____

316) List all items in the miscellaneous expense account greater than \$_____.

Description	Amount

CORPORATION TAX ORGANIZER (1120, 1120S)
(EXPANDED VERSION)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
317) Will all compensation related accruals (including vacation pay) be paid within 2½ months of year-end? If no, provide details of unpaid amounts.	_____	_____	_____
318) Are there any unpaid expenses to shareholder(s) at year-end? If “yes, provide detail.	_____	_____	_____
319) Provide copies of certification for members of target groups and associated wages paid qualifying for Work Opportunities Credit.	_____	_____	_____
400) S CORPORATIONS ONLY			
401) Have fringe benefits paid on behalf of more than 2% shareholders (including but not limited to medical, life insurance, disability, housing, etc.) been included in shareholder’s compensation, and included in payroll taxes? Indicate to which accounts these amounts have been posted.	_____	_____	_____

QUALIFIED RETIREMENT PLAN ORGANIZER
FORM 5500

PLAN NAME _____ PLAN YEAR _____

CONTACT PERSON _____ PHONE # _____ FAX # _____

SPONSOR NAME _____ PLAN # _____

SPONSOR ADDRESS _____

_____ FEDERAL ID # _____

TYPE OF ENTITY _____

PLAN ADMINISTRATOR _____

ADMINISTRATOR ADDRESS _____

_____ FEDERAL ID# _____

TRUSTEE _____

TRUSTEE ADDRESS _____

PLAN ATTORNEY _____

INVESTMENT ADVISOR _____

Enclosed is an organizer that I (we) provide to our tax clients in order to assist them in gathering the information necessary to prepare their annual return/reports for qualified retirement plans for the current year.

For your convenience there is an engagement letter enclosed which explains the services that I (we) will provide to the plan sponsor. Please sign the copy of the engagement letter and return it in the enclosed envelope. Keep the original for your records.

Your 2004 annual return/reports are due on _____. In order to meet this filing deadline your completed organizer needs to be received no later than _____. Any information received after this date may require that an extension of time be filed for this return/report.

I (we) look forward to providing services to you. Should you have any questions regarding any items, please do not hesitate to contact me (us).

NOTE: The defined terms "key employee" and "highly compensated employee" are explained at the end of this organizer.

Previously
Provided Attached N/A

101) If this is the first year in which we are to prepare your Form 5500, furnish the following items:

.1) Plan document, trust agreement, adoption agreement and amendments.

.2) Prior three years' summary annual reports.

.3) Most current summary plan description and summary(ies) of material modifications.

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

	<u>Previously Provided</u>	<u>Attached</u>	<u>N/A</u>
.4) Prior three years' plan financial statements.	_____	_____	_____
.5) Prior three years' Forms 5500.	_____	_____	_____
.6) Prior three years' employee census, including balances and vesting information.	_____	_____	_____
.7) Most recent IRS determination letter.	_____	_____	_____
.8) If the plan allows participant loans, provide copies of loan documents and amortization schedules.	_____	_____	_____
102) Furnish the following items for the current year:			
.1) Employee census (specimen attached or update attached census from prior year).	_____	_____	_____
.2) Plan financial statements.	_____	_____	_____
.3) If there are no financial statements for the plan, provide the following:			
(a) Recap of receipts and disbursements for all bank accounts.	_____	_____	_____
(b) Reconciled bank statements as of the plan's year-end.	_____	_____	_____
(c) Recaps or copies of all monthly brokerage or investment accounts for the plan year.	_____	_____	_____
(d) Schedule of fair market value of all investments as of the close of the plan year.	_____	_____	_____
.4) Detail of employer contributions for the plan year. Indicate dates accrued and paid or scheduled to be paid.	_____	_____	_____
.5) Form 5500, Schedule A, if a portion or all of the plan is invested in insurance contracts.	_____	_____	_____
.6) Form 5500, Schedule B, if the plan is a defined benefit plan.	_____	_____	_____
.7) Form 5500, Schedule P.	_____	_____	_____
.8) Page 1 of the income tax return (Form 1040, Schedule C if sole proprietorship) of the sponsor.	_____	_____	_____
.9) Copies of new loan documents and amortization schedules.	_____	_____	_____
.10) Copies of Forms 1099-R issued.	_____	_____	_____

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

Previously
Provided Attached N/A

.11) Copies of new summary plan description or summary(ies) of material modifications.

.12) Any IRS determination letter received during the past year.

YES NO N/A

103) Was the plan terminated during the plan year? If yes, provide a copy of executed resolution.

104) Were there any amendments during the plan year? If yes, provide copies of the amendment(s).

105) Has the plan been audited by either the Internal Revenue Service or the Department of Labor? If yes, attach copies of all correspondence.

106) Have there been any disputed claims or litigation filed or threatened with respect to the plan? If yes, attach copies of all correspondence.

107) Was the plan insured by a fidelity bond for loss through fraud or dishonesty? If yes, complete the following:

Name of surety company _____

Amount of bond _____

108) Was any participant separated from service with a deferred vested benefit during the plan year?

109) Are there any individuals in the company who have worked more than 1,000 hours who are not considered to be common law employees (e.g., independent contractors)? If yes, include these individuals on the employee census form and identify them as "leased" or "not leased."

110) List officers and owner(s) of sponsor company and percentage of ownership:

NAME	TITLE	OWNERSHIP PERCENTAGE

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

YES NO N/A

- 111) Does any key employee, or any member of the key employee's family, own an interest in any other non-publicly traded business? If yes, complete the following.

EMPLOYEE NAME	RELATIONSHIP TO OWNER	NAME AND TYPE OF ENTITY	OWNERSHIP PERCENTAGE

YES NO N/A

- 112) Do any relatives of any key employee work for the company? If yes, identify them on the employee census.

- 113) Did all new participants receive a summary plan description?

- 114) Did all terminated participants who received distributions receive required Forms 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.?

- 115) Have participants received required annual information about their account balance(s), vested percentage(s) and matching contributions?

- 116) Was the prior year summary annual report for the plan year distributed to participants?

- 117) Has there been any reversion of plan assets to the employer during the plan year?

- 118) Did any service provider receive compensation from the plan during the plan year? If yes, attach a schedule.

- 119) Has there been a termination of the appointment of either of the following?

___ accountant ___ enrolled actuary If yes, attach explanation(s).

- 120) Did any of the following transactions occur between the plan and any parties-in-interest (e.g., employer, participant)? If yes, attach explanation.

.1) The sale, exchange or leasing of any property.

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
.2) The lending of money or other extension or credit (with certain exemptions for plan loans to participants or beneficiaries).	_____	_____	_____
.3) The furnishing of goods, services, or facilities.	_____	_____	_____
.4) The transfer of any plan assets to, or use of any plan assets by or for the benefit of, a party-in-interest.	_____	_____	_____
.5) The plan's acquisition or retention of any employer security or employer property.	_____	_____	_____
121) Is the plan audited by an independent qualified public accountant? If yes, provide the audited financial statements and complete the following questions concerning transactions during the plan year:	_____	_____	_____
.1) Did the plan have assets held for investment?	_____	_____	_____
.2) Were any loans or fixed obligations due the plan in default as of the close of the plan year or considered uncollectible?	_____	_____	_____
.3) Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets?	_____	_____	_____
.4) Did the plan engage in any non-exempt transactions with parties-in-interest not reported in the notes to the financial statement?	_____	_____	_____
.5) Did the plan hold qualifying employer securities that are not publicly traded?	_____	_____	_____
.6) Did the plan purchase or receive any nonpublicly traded securities that were not appraised in writing by an unrelated third party within three months prior to their receipt?	_____	_____	_____
.7) Did any person manage plan assets who had a financial interest worth more than 10% in any party providing services to the plan or receive anything of value from any party providing services to the plan?	_____	_____	_____

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

EMPLOYEE CENSUS

[illegible]

* See type codes on attached page

** Compensation is generally defined by the plan.

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

EMPLOYEE CENSUS INSTRUCTIONS

Type Codes

Type codes are used in calculating distributions and in preparing various government reports, and may also affect eligibility for certain benefits.

<u>Type 1: Employee Status</u>		<u>Type 2: Key or</u>	<u>Type 3: Marital Status</u>
1 = Active	7 = Deceased	<u>Highly Compensated Employee</u> a = Key employee only b = Highly compensated only c = Key & highly compensated d = Family member of key employee	Y = Married
2 = Terminated	8 = Excluded		N = Unmarried
3 = Retired	9 = Independent Contractor/ Leased		
4 = Disabled	10 = Independent Contractor/ Not Leased		
5 = Ineligible			
6 = Leave of Absence			

Hours of Service

Hours of service may be the basis for determining eligibility to participate in the plan, eligibility to receive an employer contribution and eligibility for vesting. If actual hours are available for the plan year, please provide the actual hours of service. However, if actual hours are not maintained by the employer, you may use the following coding to identify hours of service:

L Less than 500 hours **S** Between 499 and 1000 hours **F** 1,000 hours or more.

Compensation

For defined contribution plans, contributions and allocations are based upon a definition of compensation which generally will be contained in the plan document. Complete the employee census after indicating below how compensation is defined in your plan.

<input type="checkbox"/>	Compensation reported as taxable income for W-2 purposes
<input type="checkbox"/>	Wages paid during the plan year
<input type="checkbox"/>	Compensation before 401(k) deferrals and after section 125 deferrals
<input type="checkbox"/>	Wages accrued during the plan year
<input type="checkbox"/>	Includes bonus <input type="checkbox"/> Excludes bonus <input type="checkbox"/>
<input type="checkbox"/>	Includes tips <input type="checkbox"/> Excludes tips <input type="checkbox"/>
<input type="checkbox"/>	Includes commissions <input type="checkbox"/> Excludes commissions <input type="checkbox"/>
<input type="checkbox"/>	Other _____

QUALIFIED RETIREMENT PLAN ORGANIZER (5500)

DEFINITIONS

KEY EMPLOYEE

For plan years beginning on or after January 1, 2002, a key employee means any employee who at any time during the plan year containing the determination date meets any one of the tests described below:

- (1) Officer Test. An officer of the employer whose annual compensation is greater than \$130,000. The number of officers to be taken into account is limited to 50. If there are fewer than 50 officers for purposes of this test, the greater of 10% of total employees or three officers is used for the test. If there are more officers than the limited number, the officers with the highest one-year compensation during the five-year period are used.
- (2) 5% Owner Test. An employee who owns more than 5% of the employer. An individual is considered as owning stock owned directly or indirectly by a spouse, children, grandchildren and parents.
- (3) 1% Owner Test. An employee who owns more than 1% of the employer and whose annual compensation exceeds \$150,000.

A different definition of “key employee” applies for plan years beginning prior to January 1, 2002. If your plan year begins prior to that date, please contact us to obtain the applicable definition.

HIGHLY COMPENSATED EMPLOYEE

A highly compensated employee is an employee who (even if now terminated):

- (1) Was a more than 5% owner of the employer during the current or preceding year, or
- (2) Received compensation in excess of \$90,000 in the preceding year. The \$90,000 amount will be adjusted periodically by the Secretary of the Treasury. The employer may elect under IRC §414(q)(1)(B)(ii) to limit the class of employees receiving compensation in excess of \$90,000 who are considered key employees to those who were in the “top-paid group” of employees for such preceding year. Under IRC §414(q)(3), “top-paid group” means generally the top 20 percent of employees when ranked on the basis of compensation.

NEW CLIENT WELCOME LETTER

(Date) _____

(Taxpayer) _____

(Address) _____

Dear _____ (Taxpayer) _____:

Thank you for choosing our/my firm. We/I will work on your behalf to maintain the confidence you have in us/me by selecting our/my firm.

Enclosed is a copy of our/my firm's "PRIVACY POLICY" for your consideration in complying with our request.

In order for us to compile a complete file, please provide copies of the following documents:

Select Items To Be Requested

- _____ From your corporate record book:
 - Articles of Incorporation and Bylaws
 - Minutes
 - Stock register
- _____ Partnership agreement
- _____ Depreciation schedules
- _____ Tax returns for _____, _____, and _____/the years ended _____, _____ and _____
- _____ Financial statements for the year(s) ended _____, _____, and _____
- _____ Buy/sell agreement(s)
- _____ Employment agreement(s)
- _____ Lease agreement(s)
- _____ Loan agreement(s)
- _____ Tax elections and related approvals
- _____ Copies of taxing authority audit reports
- _____ Will
- _____ Trust agreement
- _____ _____
- _____ _____

Thanks again for choosing us/me to service your accounting, tax and related needs. We/I look forward to a long and mutually satisfying relationship. Should you have any questions or concerns regarding your account or our/my services, please contact us/me.

Sincerely,

(Preparer) _____

Encl: PRIVACY POLICY

(insert your firm name) PRIVACY POLICY

CPAs, like all providers of personal financial services, are now required by law to inform their clients of their policies regarding privacy of client information. CPAs have been and continue to be bound by professional standards of confidentiality that are even more stringent than those required by law. Therefore, I/we have always protected your right to privacy.

Types of Nonpublic Personal Information We Collect

I/we collect nonpublic personal information about you that is either provided to us by you or obtained by us with your authorization.

Parties to Whom We Disclose Information

For current and former clients, I/we do not disclose any nonpublic personal information obtained in the course of my/our practice except as required or permitted by law. Permitted disclosures include, for instance, providing information to our employees and, in limited situations, to unrelated third parties who need to know that information to assist us in providing services to you. In all such situations, I/we stress the confidential nature of information being shared.

Protecting the Confidentiality and Security of Current and Former Clients' Information

I/we retain records relating to professional services that I/we provide so that I/we are better able to assist you with your professional needs and, in some cases, to comply with professional guidelines. In order to guard your nonpublic personal information, I/we maintain physical, electronic, and procedural safeguards that comply with our professional standards.

Please call if you have any questions, because your privacy, our professional ethics, and the ability to provide you with quality financial services are very important to us.

The above notice must be provided to all new clients before acceptance of engagements and to continuing clients annually.

Annual notification may be included with other materials such as engagement letters, newsletters, tax organizers, etc.

TAX PERMANENT FILE CONTENTS - INDIVIDUAL

- ___ Amended return schedule
- ___ Basis for home mortgage interest deductions
- ___ Buy/sell agreements
- ___ Client background data
- ___ Closing documents for purchase/sale of a residence
- ___ Contracts
- ___ Copies of gift/estate tax returns
- ___ Divorce decree(s)/Separation agreement(s)
- ___ Estate planning documents
- ___ Forms 2119 (gain on sale of a personal residence)
- ___ Powers of Attorney
- ___ Record of taxing authority audits
- ___ Trust documents
- ___ Wills
- ___ Qualified plan documents, if applicable
- ___ Form 8606 - nondeductible IRA contributions
- ___ _____
- ___ _____
- ___ _____

TAX PERMANENT FILE CONTENTS - BUSINESS ENTITIES

___	Amended return schedule
___	Annual minutes-continuing matters
___	Approval of fiscal year election
___	Approved S elections (Form 2553,QSSS,QSST,ESBT)/termination letter
___	Articles of incorporation/Partnership agreement
___	Automobile policies
___	Buy/sell agreements
___	By-laws
___	Client background data
___	Earnings and profits calculation
___	Employment/independent contractor agreements
___	Federal and state taxpayer identification numbers
___	Form 966 liquidation form
___	Fringe benefit information (i.e., medical reimbursement, education, deferred compensation, etc.)
___	Officer life insurance information
___	Qualified plan IRS determination letter and Summary Plan Description
___	Record of taxing authority audits
___	Statement of assets transferred (§ 351/§ 751)
___	Inventory information (i.e., LIFO layers, constant unit values, § 263A formulas, etc.)
___	Basis information (i.e., long-term investments, land, etc.)
___	Accounting methods and elections
___	Partnership 754 elections
___	Consolidation and elimination history
___	_____
___	_____

TAX PERMANENT FILE CONTENTS CARRYFORWARD SCHEDULES

- ___ Alternative minimum tax credit carryforwards
- ___ At-risk computations for S corporations/partnerships
- ___ Basis computation for S corporations/partnerships
- ___ Basis of investments (including dividend reinvestments/stock dividends)
- ___ “Built-in gain” valuation workpapers
- ___ Business credits
- ___ Capital losses
- ___ Contributions
- ___ Data diskettes
- ___ Depletion
- ___ Depreciation schedules
- ___ Excess home office expense
- ___ Excess § 179 deduction
- ___ Installment sales schedules
- ___ Loan amortization schedules and related notes
- ___ Net operating loss and AMT net operating loss carryforwards
- ___ Non-deductible IRAs
- ___ § 1231 gains/losses
- ___ Suspended passive loss/credit carryforwards
- ___ Unamortized mortgage points schedule

SAMPLE ENGAGEMENT LETTERS

This package contains samples of engagement letters to be used in connection with engagements to prepare income tax returns for:

- Estate Tax (Form 706)
- Individuals (Form 1040)
- Estates and Trusts (Form 1041)
- Partnerships/LLPs/LLCs (Form 1065)
- Corporations (Form 1120)
- S Corporations (Form 1120S)
- Qualified Retirement Plans (Form 5500)
- Tax Examination Engagement Letter
- Optional paragraphs for inclusion in tax engagement letters
- Confidentiality privilege engagement letter

In addition, there are several optional paragraphs that may be used in lieu of or to supplement the various sample engagement letters contained herein. These optional paragraphs include A) substantial understatement penalty disclosures for each type of engagement letter, B) a paragraph limiting the scope of the engagement, C) a paragraph discussing client records, D) a paragraph disclosing the use of a third party service provider, E) a paragraph regarding outside disclosure for peer review programs, F) a paragraph disclosing finance charges, G) a paragraph discussing the negligence penalty, H) a paragraph offering the option of electronically filing the tax return, I) a paragraph drawing attention to an attached organizer, J) a paragraph regarding limited confidentiality privilege, K) a paragraph regarding third party disclosure liability and expense.

These engagement letter samples are issued as drafts only and do not represent an official AICPA position. Practitioners using them retain responsibility for their final content. They should be reviewed carefully and changed as necessary for your particular use. In adapting these drafts to your particular needs you should be sure to consider the following:

- 1) AICPA Statements on Responsibilities in Tax Practice,
AICPA Guidelines for Voluntary Tax Practice Review
AICPA Ethics Rule 102
- 2) state requirements regarding disclosure of finance charges,
- 3) state Board of Accounting and/or AICPA requirements pertaining to disclosure of the use of an outside service bureau or third party service provider,
- 4) the desirability of obtaining the signed affirmation of the client (or clients in the case of joint and consolidated returns),
- 5) the need for a new engagement letter each year, and
- 6) a paragraph disclosing late payment charges.

706 - ESTATE AND INHERITANCE TAX RETURN ENGAGEMENT LETTER

Dear Fiduciary:

This letter is to confirm and specify the terms of our/my engagement with (Name of Estate) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare the appropriate federal and state estate and inheritance tax returns from information that you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents and other data that form the basis of calculating the gross estate and appropriate deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the estate and inheritance tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of the estate and inheritance tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. Likewise, we/I do not warrant the accuracy of any valuations or the appropriateness of the values used in the preparation of the tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The filing deadline for the tax return is _____. In order to meet this filing deadline, the information needed to complete the return should be received by us no later than _____.

If an extension of the time is required, any tax that may be due with this return must be paid with that extension. Any amounts not paid by the filing deadline are subject to interest and late payment penalties when those amounts are actually paid.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, please inform us/me by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Date: _____

Comments or additional requests: _____

1040 - INDIVIDUAL TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with you and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare your 200__ federal and requested state income tax returns from information that you will furnish us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents, canceled checks and other data that form the basis of income and deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. We/I will render such accounting and bookkeeping assistance as determined to be necessary for preparation of the income tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The filing deadline for the tax return is April 15, 200__. In order to meet this filing deadline, the information needed to complete the return should be received by us no later than _____.

If an extension of the time is required, any tax that may be due with this return must be paid with that extension. Any amounts not paid by the filing deadline are subject to interest and late payment penalties when those amounts are actually paid.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, such as gift and/or property, please inform us/me by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Date: _____

Comments or additional requests: _____

1041 - FIDUCIARY (ESTATES AND TRUSTS) TAX RETURN
ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Estate or Trust) for the year ended (____) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare the 200__ federal and requested state fiduciary income tax returns from information that you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents, canceled checks and other data that form the basis of income and deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. You have the final responsibility for the fiduciary income tax returns and, therefore, you should review them carefully before you sign them.

Our/My work in connection with the preparation of the fiduciary income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist. We/I will render such accounting and bookkeeping assistance as determined to be necessary for preparation of the income tax returns.

We/I will use professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The filing deadline for the tax return is _____. In order to meet this filing deadline, the information needed to complete the return should be received by us no later than _____.

If an extension of the time is required, any tax that may be due with this return must be paid with that extension. Any amounts not paid by the filing deadline are subject to interest and late payment penalties when those amounts are actually paid.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of these penalties, please contact us/me.

The returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other tax returns you expect us/me to prepare, such as gift and/or property, please inform us/me by noting so just below your signature at the end of the return copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Date: _____

Comments or additional requests: _____

1065 - PARTNERSHIP/LLP/LLC TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Partnership or Limited Liability Company) for the year ended (____) and to clarify the nature and extent of the services we/I will provide. Also, by sending you this engagement letter we/I have assumed that you are the person responsible for the tax matters of the partnership. If this is not a correct assumption, please furnish us/me with the name of the tax matters partner.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.
2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me. Because this is an entity whose tax attributes flow through to its partners or members, the penalty for substantial understatement of tax relating to this entity may be imposed on the partners or members.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

The filing deadline for the tax return is _____. In order to meet this filing deadline, the information needed to complete the return should be received by us no later than _____.

If an extension of the time is required, any tax that may be due with this return must be paid with that extension. Any amounts not paid by the filing deadline are subject to interest and late payment penalties when those amounts are actually paid.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are any additional returns you expect us/me to prepare, please inform us/me by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our/my appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Title: _____

Date: _____

Comments or additional requests: _____

1120 - CORPORATION TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of Corporation) for the year ended (____) and to clarify the nature and extent of the services we/I will provide. Also, by sending you this engagement letter we/I have assumed that you are the person responsible for the tax matters of the corporation. If this is not a correct assumption, please furnish us/me with the name of the individual with whom this work should be coordinated.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.
2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

The filing deadline for the tax return is _____. In order to meet this filing deadline, the information needed to complete the return should be received by us no later than _____.

If an extension of the time is required, any tax that may be due with this return must be paid with that extension. Any amounts not paid by the filing deadline are subject to interest and late payment penalties when those amounts are actually paid.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are any additional returns you expect us/me to prepare, please inform us /me by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Title: _____

Date: _____

Comments or additional requests: _____

1120S - S CORPORATION TAX RETURN ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (Name of S Corporation), a Subchapter S corporation, for the year ended (____) and to clarify the nature and extent of the services we/I will provide. Also, by sending you the engagement letter, we/I have assumed that you are the person responsible for the tax matters of the corporation. If this is not a correct assumption, please furnish us/me with the name of the tax matters person.

Our/My engagement will be designed to perform the following services:

1. Prepare the federal, state, and local income tax returns with supporting schedules.
2. Perform any bookkeeping necessary for preparation of the income tax returns.

Our/My work in connection with the preparation of your income tax returns does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use our/my judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The law provides various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or circumstances of these penalties, please contact us/me. Because an S corporation is an entity whose tax attributes generally flow through to its shareholders, the penalty for substantial understatement of tax relating to S corporation items may be imposed at either the corporate or shareholder level.

Management is responsible for the proper recording of transactions in the books of accounts, for the safeguarding of assets, and for the substantial accuracy of the financial records. You have the final responsibility for the income tax returns and, therefore, you should review them carefully before you sign and file them.

The filing deadline for the tax return is _____. In order to meet this filing deadline, the information needed to complete the return should be received by us no later than _____.

If an extension of the time is required, any tax that may be due with this return must be paid with that extension. Any amounts not paid by the filing deadline are subject to interest and late payment penalties when those amounts are actually paid.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our office. However, if there are additional returns you expect us/me to prepare, please inform me/us by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our/my appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Title: _____

Date: _____

Comments or additional requests: _____

5500 - QUALIFIED RETIREMENT PLAN RETURN
ENGAGEMENT LETTER

Dear Client:

This letter is to confirm and specify the terms of our/my engagement with (name of plan) for the plan year ended (____) and to clarify the nature and extent of the services we/I will provide. In order to ensure an understanding of our mutual responsibilities, we/I ask all clients for whom returns are prepared to confirm the following arrangements.

We/I will prepare your 200__ Form 5500 (or other 5500 series form) from information that you will furnish to us/me. We/I will not audit or otherwise verify the data you submit, although it may be necessary to ask you for clarification of some of the information. We/I will furnish you with questionnaires and/or worksheets to guide you in gathering the necessary information. Your use of such forms will assist in keeping pertinent information from being overlooked.

It is your responsibility to provide all the information required for the preparation of a complete and accurate return. You should retain all the documents and other data that form the basis of the Form 5500 filing. These may be necessary to prove the accuracy and completeness of the returns to the Internal Revenue Service and Department of Labor. You have the final responsibility for the return and, therefore, you should review it carefully before you sign it.

Our/My work in connection with the preparation of your Form 5500 filing does not include any procedures designed to discover defalcations or other irregularities, should any exist.

We/I will use professional judgment in resolving questions or where there may be conflicts between the authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we/I will resolve such questions in your favor whenever possible.

The filing deadline for the tax return is _____. In order to meet this filing deadline, the information needed to complete the return should be received by us no later than _____.

Your return may be selected for review by the Internal Revenue Service and the Department of Labor. Any proposed corrective adjustments by the examining agent are subject to certain rights of appeal. In the event of such government examination, we/I will be available upon request to represent you and will render additional invoices for the time and expenses incurred.

Our/My fee for these services will be based upon the amount of time required at standard billing rates plus out-of-pocket expenses. All invoices are due and payable upon presentation.

This engagement letter relates only to the plan(s) specified above. Please notify us/me if you have additional employee benefit plans that might require a Form 5500 filing.

If the foregoing fairly sets forth your understanding, please sign the enclosed copy of this letter in the space indicated and return it to our/my office. However, if there are other returns you expect us/me to prepare, please inform us/me by noting so just below your signature at the end of the returned copy of this letter.

We/I want to express our appreciation for this opportunity to work with you.

Very truly yours,

Accepted By: _____

Title: _____

Date: _____

Comments or additional requests: _____

TAX EXAMINATION ENGAGEMENT LETTER

Dear Client:

This letter will confirm the arrangements for our/my representation of you with respect to the Internal Revenue Service examination of your _____ Federal income tax return. As part of this engagement, we/I request that you sign the attached Form 2848, *Power of Attorney and Declaration of Representative*, which will notify the IRS that we/I are your authorized representative.

We/I will represent you before the Internal Revenue Service during this examination, unless the arrangement is terminated in writing by either party. Furthermore, in the event we/I cannot resolve all of the issues at the examination level, we/I will be available to appeal any proposed deficiency at the Appeals Division of the Internal Revenue Service, although that appeal is not part of this engagement.

We/I will not audit, or otherwise verify, any information provided by you for presentation to the Internal Revenue Service during the course of the examination, unless we/I deem it necessary or you specifically request us to do so in writing. However, we/I may ask you for further clarification and expect you to provide that clarification promptly and candidly.

Our communications are “confidential,” not “privileged.” This means that in *most* cases our communications cannot be disclosed to third parties without your approval. On the other hand, privileged communications are not permitted to be disclosed, even in court. There is no CPA-client privilege in criminal tax matters. Accordingly, if we/I are served by a properly issued administrative summons compelling us/me to testify in court proceedings, even our/my confidential communications are subject to disclosure.

The Internal Revenue Service has recently begun emphasizing a number of procedures during examinations to ascertain that taxpayers have reported all of their income. These procedures have led to a growing number of requests by examining agents to interview the taxpayer directly. However, you do have a statutory right to be represented, and *not* to meet with the examining agent (unless you are served with an enforceable administrative summons). It is in your best interest to refer any questions or other contact from the agent to us/me without discussing the case with the agent. **By signing this engagement letter you acknowledge that any direct contact by the IRS will be promptly referred to us/me as your authorized representative. It is hereby acknowledged that if you choose to appear before or discuss this case with the agent against our/my advice, you do so at your own risk.**

Fees for our/my representation (plus out-of-pocket expenses) will be billed as incurred. We/I also require a retainer of \$_____, payable on acceptance of this agreement.

Fees and expenses are due and payable upon presentation of our invoice to you. Bills rendered to you will not be applied against the \$_____ retainer. Our/my fee for representing you will be based upon our/my time, billed at our/my customary rates. We/I estimate our/my fees to be \$_____ or on average \$_____ per hour. If we/I have not received payment in accordance with the stated terms, we/I reserve the right to terminate this engagement with no further notice.

If this letter reflects your understanding of the terms of our engagement, please sign below and return one copy in the enclosed envelope.

We/I look forward to serving you.

Very truly yours,

Accepted By: _____

Title: _____

Date: _____

OPTIONAL PARAGRAPHS FOR INCLUSION IN
TAX ENGAGEMENT LETTERS

A) Accuracy-Related Penalty Disclosures

1. For Individuals:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Taxpayers may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

2. For Partnerships and Limited Liability Companies:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For partnerships and individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Taxpayers other than "tax shelters" may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. A taxpayer is considered a "tax shelter" if its principal purpose is to avoid federal income tax. Because a partnership is an entity whose tax attributes flow through to its partners, the penalty for substantial understatement of tax relating to partnership items may be imposed on the partner. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

3. For C Corporations:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For corporate taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$10,000. The penalty is 20 percent of the tax underpayment. Taxpayers may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purposes of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

4. For S Corporations:

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of their tax liability. For S corporations and individual taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Taxpayers other than "tax shelters" may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. A taxpayer is considered a "tax shelter" if its principal purpose is to avoid Federal income tax. Because an S corporation is an entity whose tax attributes generally flow through to its shareholders, the penalty for substantial understatement of tax relating to S corporation items may be imposed at either the corporate or shareholder level. You agree to advise us/me if you wish disclosure to be made in your returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in your returns.

5. For Fiduciaries (Estates and Trusts):

The law provides for a penalty to be imposed where a taxpayer makes a substantial understatement of its tax liability. For fiduciary taxpayers, a substantial understatement exists when the understatement for the year exceeds the greater of 10 percent of the tax required to be shown on the return, or \$5,000. The penalty is 20 percent of the tax underpayment. Fiduciaries may seek to avoid all or part of the penalty by showing (1) that they acted in good faith and there was reasonable cause for the understatement, (2) that the understatement was based on substantial authority, or (3) that the relevant facts affecting the item's tax treatment were adequately disclosed on Form 8275 or 8275-R attached to the return and there was reasonable basis for the position. You agree to advise us/me if you wish disclosure to be made in the returns or if you desire us/me to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our/my opinion, there is "substantial authority" for the position proposed to be taken on such issue in the returns.

- B) The engagement does not include any services not specifically stated in this letter. However, we/I would be pleased to consult with you regarding other income tax matters, such as proposed or completed transactions, income tax projections, and for research in connection with such matters. We/I will render additional invoices for such services at our/my standard billing rates.
- C) You represent that the information you are supplying to us/me is accurate and complete to the best of your knowledge and that your expenses for meals, entertainment, travel, business gifts, charitable contributions, dues and memberships, and vehicle use are supported by records as required by law. We/I will not verify the information you give us/me. However, we/I may ask you for clarification of some of the information.
- D) Your tax return may be processed by a third party service provider. Please advise us/me if you prefer that we/I request extra security or forego a third party service provider.
- E) We/I subscribe to a program of peer review for maintenance of quality control in our/my office. As part of this program, your return may be selected for review by other CPAs under strict rules of confidentiality. Your acceptance below constitutes your agreement for disclosure under the program.
- F) A late payment charge of ____ percent per month will be assessed on any balance that remains unpaid after deduction of current payments, credits, and allowances after 30 days from the date of billing. This is an Annual Percentage Rate of ____ percent.

- G) The law provides for a penalty of 20 percent to be imposed on any underpayment that results from negligence or disregard of rules or regulations. Negligence “includes any failure to make a reasonable attempt to comply...” with the Code. Disregard “includes any careless, reckless or intentional disregard.” Taxpayers may seek to avoid all or part of the penalty by showing they acted in good faith and by demonstrating that they have a reasonable basis for the understatement.
- H) You may choose to have us/me file your return electronically with the Internal Revenue Service Center. You must review and sign the return before it can be electronically transmitted. We/I are/am not responsible for the length of time it takes the IRS to process your return. Our/my fee for this service is _____.
- I) We/I have attached a tax data organizer. It is designed to assist you in gathering the data necessary for us/me to prepare a complete and accurate return.
- J) The Internal Revenue Service Restructuring and Reform Act of 1998 provides a limited confidentiality privilege for certain communications between you and my/our firm involving tax advice. This privilege does not cover items other than tax advice such as your tax records, tax return preparation, state tax proceedings, criminal proceedings, or private civil litigation. Any disclosure of qualifying confidential information to the government or third parties may result in waiver of the confidentiality privilege. To protect your right to privileged communication, please contact us if you have any questions or need further information.
- K) In the event that our firm receives a request from a third party (including a subpoena, summons, or discovery demand in litigation) calling for the production of privileged information, our firm will promptly notify you. If you instruct our firm in writing to assert the privilege on your behalf, our firm will do so to the extent allowed by law. You hereby undertake to hold our firm harmless from and be responsible for any expenses (including attorney’s fees, court costs, and any other costs imposed whether by way of penalty or otherwise) incurred by our firm as a result of your assertion of the privilege or your direction to our firm to assert the privilege on your behalf.

CONFIDENTIALITY PRIVILEGE ENGAGEMENT LETTER

Dear Client:

The Internal Revenue Code, as amended by the Internal Revenue Service Restructuring and Reform Act of 1998, extends a CPA–client confidentiality privilege to qualified tax advice that we provide to you. In order to ensure that all communications resulting from tax advice is covered under the privilege umbrella of the Act, we are asking you to confirm the following arrangements:

We will provide tax advice as needed or requested to meet specific objectives or generally to meet long-term tax related goals and objectives. You have the right to review and/or be supplied with copies of any and all tax planning or research memos and workpapers prepared by our firm related to such tax advice. Tax advice includes, but is not limited to, the following:

- Researching the income tax reporting of a particular transaction. We will review these situations with you and resolve issues in your favor whenever possible.
- Providing business tax and consulting to you, throughout the year, for consideration in making tax-related decisions.
- Providing services related to the expected outcome of future tax decisions.

Privileged tax advice **does not** include communications associated with the preparation of tax returns, tax accrual workpapers associated with a financial audit or other financial statement engagement, or in providing general business or accounting recommendations or other non-tax engagements.

You may assert the confidentiality privilege in any noncriminal tax matter before the Internal Revenue Service or any proceeding in Federal Court brought by or against the United States. We will not disclose any advice provided under the scope of this engagement letter to the Internal Revenue Service or third parties unless you provide us written consent to do so. Any disclosure of confidential information by you or us to the IRS or third parties may cause the Confidentiality Privilege to be waived. Caution must be taken by both parties to not inadvertently waive the privilege.

You should notify us of any requests by the Internal Revenue Service for information about any tax advice or tax advice documents provided by us to you.

If you advise us to assert the Confidentiality Privilege on your behalf you agree to hold **FIRM NAME** harmless and indemnify us for any attorney fees and any other costs and expenses (including penalties) incurred by us in defending the confidential communication.

In the event that our firm receives a request from a third party (including a subpoena, summons, or discovery demand in litigation) calling for the production of privileged information, our firm will promptly notify you. If you instruct our firm in writing to assert the privilege on your behalf, our firm will do so to the extent allowed by law. You hereby undertake to hold our firm harmless from and be responsible for any expenses (including attorney's fees, court costs, and any other costs imposed whether by way of penalty or otherwise) incurred by our firm as a result of your assertion of the privilege or your direction to our firm to assert the privilege on your behalf.

Very truly yours,

Accepted By: _____

Title: _____

Date: _____

TAX RETURN ROUTING SCHEDULE

(To be bound with _____)

CLIENT NAME/NUMBER _____ TAX YEAR _____

TYPE OF RETURN _____ STATE/LOCAL RETURN(S) REQUESTED _____

DUE DATE _____ EXTENDED DUE DATE _____

DATE DATA RECEIVED FROM CLIENT _____ TARGET COMPLETION DATE _____

IN-CHARGE _____ SIGNER _____ ENGAGEMENT LETTER SIGNED _____

	<u>Assigned to/ Target Date</u>	<u>Initial/Date</u>	<u>Actual Time/Cost</u>	<u>Budget Time/Cost</u>	
Client Interview	_____	_____	_____	_____	
Preparation	_____	_____	_____	_____	
Update Permanent File	_____	_____	_____	_____	
Math Check	_____	_____	_____	_____	
Forms Input Review	_____	_____	_____	_____	
To Computer Processing	_____	_____	_____	_____	
Data Entry/Typing	_____	_____	_____	_____	
Returned from Computer Processing	_____	_____	_____	_____	
Forms Output Review	_____	_____	_____	_____	
Technical Review	_____	_____	_____	_____	
Update Carryforward Schedule	_____	_____	_____	_____	
Assembly	_____	_____	_____	_____	
Signature	_____	_____	_____	_____	
Mail/Pick-Up/Delivery (Circle One)	_____	_____	_____	_____	
Estimate Reminder Log Updated	_____	_____	_____	_____	
Total	_____	_____	_____	_____	
<u>BILLING</u>	<u>Time Charges</u>	<u>Computer Charges</u>	<u>Out-of-Pocket</u>	<u>Total</u>	<u>Billing</u>
Prior Year	_____	_____	_____	_____	_____
Current Year	_____	_____	_____	_____	_____

SPECIAL INSTRUCTIONS/BUDGET EXCEPTIONS:

TAX RETURN GUIDE SHEET
(To be bound with _____)

Taxpayer _____

Taxable Year(s) _____

Return _____

Number of additional copies _____

Additional copies to:

Name _____

Name _____

Address _____

Address _____

Attach Extension: Yes _____ No _____

Number of Forms W-2 _____ Number of other withholding statements _____

Other attachments to return:

_____ Federal return to state return

Other accountant information to be furnished to client: (X=Xerox, C=Computer printed)

_____ Income Tax Summary
_____ Carryover Schedules
_____ Partnership/S Corporation/Fiduciary/K-1 Reconciliations
_____ Passive Activity Loss Worksheets
_____ Current Year Depreciation Schedules
_____ Next Year Depreciation Schedules
_____ Adjusted Trial Balance
_____ Federal Tax Trial Balance
_____ Adjusting Journal Entries
_____ Reclassifying Journal Entries
_____ Federal Tax Journal Entries
_____ General Ledger
_____ General Journal Entries
_____ Cash Disbursements
_____ Cash Receipts
_____ Other (description and workpaper references)

Other processing instructions:

_____ Return client data

Final release:

The return described above was signed and released by me after all pending items were cleared, all appropriate levels of review were signed off, and all processing steps completed.

Signature

Date

CARRYFORWARD SCHEDULE

Client Name/Number: _____

Carryforward to Period: _____ Tax Form: _____

CARRYFORWARD DEDUCTION AND CREDITS (CHECK IF APPLICABLE)

AMOUNT

_____	Capital Loss Carryforward	\$ _____
_____	Charitable Contributions Carryforward	_____
_____	Net Operating Loss Carryforward - Regular	_____
_____	Net Operating Loss Carryforward - AMT	_____
_____	Investment Credit Carryforward	_____
_____	WIN Credit Carryforward	_____
_____	Job Tax Credit Carryforward	_____
_____	Loss Carryforwards Attributable to At-Risk Limitation (Partnerships, S Corps., etc.)	_____
_____	Loss Carryforwards Attributable to Basis Limitations (Partnerships, S Corps., etc.)	_____
_____	Investment Interest Expense Carryforward	_____
_____	Carryforward of Office in Home Deductions	_____
_____	Carryforward of Suspended Passive Losses and Credits	_____
_____	Alternative Minimum Tax Credit	_____
_____	Section 179 Amount Due to Income Limitations	_____
_____	Foreign Tax Credit	_____
_____	Other _____	_____
_____	_____	_____
_____	_____	_____

DEFERRED GAINS (CHECK IF APPLICABLE)

_____	Installment Sales	_____
_____	Income Pick-up from Short-Year S Corp., Partnership and Trust Returns	_____
_____	Gain on Sale of Residence	_____
_____	Cash to Accrual Method Adjustments	_____
_____	Gain on Involuntary Conversion	_____
_____	Uniform Capitalization Inventory Adjustment	_____
_____	Recapture of Bad Debt Reserve	_____
_____	Deferred intercompany gains (for consolidated returns only)	_____
_____	Triggered built-in gains tax not paid due to taxable income limitation	_____
_____	Other _____	_____
_____	_____	_____
_____	_____	_____

COMMENTS AND EXPLANATIONS: _____

Prepared by: _____

Signature

Date

SIMPLIFIED EMPLOYEE PENSION PLAN WORKSHEET

Taxpayer's Name: _____

- Simplified Employee Pension (SEP) Plan contribution is based on the earned income of the self-employed individual. Earned income for this computation is determined after the deduction for half of the self-employment tax and a reduction for the self-employed participant's deductible contribution to the SEP.
- If there are eligible employees, their SEP contribution must be computed using the plan contribution rate shown below and deducted on Schedules C or F before computing the SEP deduction for the proprietor.

Plan Contribution Rate (R) % _____ (Maximum of 25%)

- | | |
|---|----------------|
| 1. Schedule C Business Income | \$ _____ |
| 2. Schedule F Profit from Farming | _____ |
| 3. Other self-employment income (K-1, misc. income) | _____ |
| 4. Total lines 1 through 3 | _____ |
| 5. Self-employment tax deduction (½ total S/E tax) | _____ |
| 6. Line 4 less line 5 | _____ |
| 7. Self-employed rate (from (A), below) | _____ |
| 8. Lines 6 multiplied by line 7 | _____ |
| 9. Multiply \$200,000 by the <u>plan</u> contribution rate,
not to exceed \$40,000 | _____ |
| 10. Maximum deductible contribution (smaller lines 8 or 9) | _____
_____ |

(A) Self-Employed Rate

Self-employed rate is the plan contribution rate (R), divided by one plus the plan contribution rate $[R/(R+1)]$. Example: $R=10\%$ then self employed rate is: $.10/1.10 = .090909$. See next page for whole number table rates.

If the plan contribution rate is a whole number, use the following table:

Plan % Contribution Rate -----	Self Employed % Rate -----		Plan % Contribution Rate -----	Self Employed % Rate -----		Plan % Contribution Rate -----	Self Employed % Rate -----
1	.009901		10	.090909		19	.159663
2	.019608		11	.099099		20	.166666
3	.029126		12	.107143		21	.173553
4	.038462		13	.115044		22	.180327
5	.047619		14	.122807		23	.186992
6	.056604		15	.130435		24	.193548
7	.0653421		16	.137931		25	.200000
8	.074074		17	.145299			
9	.082569		18	.152542			

TAX RESEARCH REQUEST AND RESULTS FORMS

These forms were developed to formalize tax research assignments, notify the personnel related to an account that a research project has been initiated, provide a framework for the assigned personnel, and serve as a means to monitor the status of the project. Routing the request to other personnel associated with the client may help to insure that all pertinent facts are provided to the assigned researcher. In addition, someone may have encountered the situation, or a similar circumstance, with another client and may be able to provide some valuable assistance regarding the question at hand. Practitioners may also choose to keep a file of completed request/results forms, indexed by Code section or some other means, as an in-house reference source.

TAX RESEARCH REQUEST

CLIENT NAME/NUMBER _____

SUBJECT MATTER _____

REQUESTED BY _____ ASSIGNED TO _____

DATE OF REQUEST _____ DUE DATE _____ TIME BUDGET _____

FACTS:

[illegible]

QUESTION(S):

[illegible]

Page _____ of _____

TAX RESEARCH RESULTS

CLIENT NAME/NUMBER _____

SUBJECT MATTER _____

PREPARED BY _____ DATE _____

REVIEWED BY _____ DATE _____

ACTUAL TIME _____

FINDINGS: (Attach Research)

CONCLUSION(S):

Page _____ of _____

CLIENT REVIEW COMMENTS

CLIENT _____

RETURN/PROJECT _____ TAX YEAR _____

REVIEWED BY _____ DATE COMPLETED _____

CLEARED BY _____ DATE COMPLETED _____

[illegible]

Page ____ of ____

SAMPLE TRANSMITTAL LETTERS AND FILING INSTRUCTIONS

Following are sample transmittal letters and filing instructions for prepared tax returns:

- Individuals (Form 1040)
- Estates and Trusts (Form 1041)
- Partnerships/LLPs/LLCs (Form 1065)
- Corporations (Form 1120)
- S Corporations (Form 1120S)

In addition, optional paragraphs that may be used in lieu of or to supplement the various letters above are as follows:

- A) Estimated taxes for certain corporations
- B) Retirement plan contributions
- C) Client representation

These transmittal letter samples are issued as drafts only and do not represent the official AICPA position. Practitioners using them retain responsibility for their final content.

1040 - INDIVIDUAL TRANSMITTAL LETTER

(Long form)

(Date) _____

(Taxpayer) _____

(Address) _____

Dear (Taxpayer) :

Enclosed are the originals and copies of your 20XX federal, (State) , and (Local) individual income tax returns. The copies are for your files. The originals are to be filed as follows:

FORM 1040—The original return should be signed and dated by you/both of you and mailed no later than (Date) to:

Internal Revenue Service
 (Center Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$____. Attach a check payable to "United States Treasury" for this amount to your return, noting your social security number and "20XX Form 1040" on your check.
- ☐ The return shows an overpayment of \$____, of which \$____ will be credited to your estimated tax for 20XX, the balance of \$____ will be refunded to you.

FORM (STATE)—The original return should be signed and dated by you/both of you and mailed no later than (Date) to:

 (Agency)
 (Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$____. A check payable to (Payee) in this amount should be attached to/enclosed with your return. Your social security number and "20XX Form _____" should be noted on your check.
- ☐ The return shows an overpayment of \$____, of which \$____ will be credited to your estimated tax for 20XX and \$____ will be refunded to you.

FORM (LOCAL)—The original return should be signed and dated by you/both of you and mailed no later than (Date) to:

 (Agency)
 (Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$____. A check payable to (Payee) in this amount should be attached to/enclosed with your return. Your social security number and "20XX Form _____" should be noted on your check.
- ☐ The return shows an overpayment of \$____, of which \$____ will be credited to your estimated tax for 20XX and \$____ will be refunded to you.

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to assure that there are no omissions or misstatements.

Your returns are subject to review by federal, state and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least ____ years.

Please contact us/me immediately if you receive any notification from federal, state or local taxing agencies regarding your tax returns.

Also enclosed are originals and copies of your federal, ____ (State) ____ and ____ (Local) ____ estimated tax payment vouchers for 20XX/the tax year ending (Date). The copies are for your files. The originals are to be filed as follows:

FEDERAL ESTIMATES

On or before each due date shown below, mail the respective voucher to:

Internal Revenue Service

(Center Address)

Enclose a check payable to "United States Treasury" in the amount indicated, noting your social security number and "20XX Form 1040-ES" on your check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter	April 15, 20XX	\$
Second Quarter	June 15, 20XX	\$
Third Quarter	September 15, 20XX	\$
Fourth Quarter	January 15, 20XX	\$
TOTAL		\$

(STATE) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)

(Address)

Enclose a check payable to ____ (Payee) ____ in the amount indicated, noting your social security number and "20XX Form ____" on your check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

(LOCAL) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

 (Agency)

 (Address)

Enclose a check payable to (Payee) in the amount indicated, noting "Form _____," tax period ending (Date) , and your (Local) identification number on the check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

Your estimated tax payments were based on prior year taxable year income and withholdings. Therefore, you should contact us/me concerning any changes in income or withholding.

The original documents you furnished with your organizer are enclosed.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

1040 – INDIVIDUAL TRANSMITTAL LETTER

(Short form with mailing envelopes provided)

(Date) _____

(Taxpayer) _____

(Address) _____

Enclosed are your Federal, State, and Local individual income tax returns for 20xx. These returns were prepared from information furnished you furnished to us/me. You have the final responsibility for your income tax returns and, therefore, you should review them carefully for misstatements or omissions before they are filed.

Please sign the originals and mail in the envelopes provided no later than _____ (date) _____.

The results are as follows:

	<u>FEDERAL</u>	<u>STATE</u>	<u>LOCAL</u>
Refund	_____	_____	_____
Balance due	_____	_____	_____

Include your SSN, phone number and the words “20xx TAXES” on your checks. Make checks payable as indicated on the return or voucher. Enclose and mail voucher forms, checks and returns in the envelopes provided.

Refund due	_____	_____	_____
Applied to 20xx taxes	_____	_____	_____
20xx Est tax due 04/1x/xx	_____	_____	_____
20xx Est tax due 06/1x/xx	_____	_____	_____
20xx Est tax due 09/1x/xx	_____	_____	_____
20xx Est tax due 01/1x/xx	_____	_____	_____
Total Est tax for year 20xx	_____	_____	_____

Include your SSN, phone number and the words “20xx taxes on your checks. Make checks payable as indicated on the vouchers and mail in the envelopes provided.

20xx W2 and 1099 withholding taxes anticipating	_____	_____	_____
--	-------	-------	-------

Your estimated tax was based on prior year taxable year income and withholdings. Therefore, you should contact us/me concerning any changes in income or withholding taxes.

The information contained on page two of this letter is to confirm and specify the terms of engagement with you and to clarify the nature and extent of the services provided.

If you have any questions or need further assistance call us/me at xxx/xxx-xxxx.

Very truly yours,

Preparer _____

ADDITIONAL INFORMATION ABOUT YOUR 20XX TAX RETURNS

We prepared your 20xx federal and requested state local income tax returns from information you furnished to us/me. You represent that the information you supplied to us/me is accurate and complete to the best of your knowledge and that your expenses for meals, entertainment, travel, business gifts, charitable contributions, dues and memberships, and vehicle use are supported by records as required by law. We did not audit or otherwise verify the data you submitted, although we may have asked you to clarify some of the information.

You should retain all the documents, canceled checks and other data that form the basis of income and deductions. These may be necessary to prove the accuracy and completeness of the returns to a taxing authority. Accordingly, we recommend that you retain your tax records for a period of at least _____ years.

Our work in connection with the preparation of your income tax returns did not include any procedures designed to discover defalcations or other irregularities, should they exist.

We used our professional judgment in resolving questions where the tax law is unclear, or where there may be conflicts between the taxing authorities' interpretations of the law and other supportable positions. Unless otherwise instructed by you, we have resolve all such questions in your favor whenever possible.

The laws provide various penalties that may be imposed when taxpayers understate their tax liability. If you would like information on the amount or the circumstances of the penalties, please contact us.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we will be available upon request to represent you and will bill you for the time and expenses incurred.

We offer tax planning services throughout the year. Please do not hesitate to contact us if you have any questions regarding your taxes.

FIRM NAME

ADDRESS...PHONE/FAX NUMBER....WEB ADDRESS...EMAIL ADDRESS

1041 - FIDUCIARY TRANSMITTAL LETTER

(Date) _____

(Fiduciary Estate/Trust name) _____

(Address) _____

Dear Fiduciary:

Enclosed are the originals and copies of the 20XX federal, (State), and (Local) fiduciary income tax returns for the estate/trust. The copies are for your files. The originals are to be filed as follows:

FORM 1041—The original return should be signed and dated by the fiduciary and mailed no later than (Date) to:

Internal Revenue Service
(Center Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$____. Attach a check payable to "United States Treasury" for this amount to the return, noting the taxpayer identification number and "20XX Form 1041" on the check.
- ☐ The return shows an overpayment of \$____, of which \$____ will be credited to the estimated tax for 20XX and \$____ will be refunded.

FORM (STATE)—The original return should be signed and dated by the fiduciary and mailed no later than (Date) to:

(Agency)
(Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$____. A check payable to (Payee) in this amount should be attached to/enclosed with the return. The taxpayer identification number and "20XX Form ____" should be noted on the check.
- ☐ The return shows an overpayment of \$____, of which \$____ will be credited to the estimated tax for 20XX and \$____ will be refunded.

FORM (LOCAL)—The original return should be signed and dated by the fiduciary and mailed no later than (Date) to:

(Agency)
(Address)

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$____. A check payable to (Payee) in this amount should be attached to/enclosed with the return. The taxpayer identification number and "20XX Form ____" should be noted on the check.
- ☐ The return shows an overpayment of \$____, of which \$____ will be credited to the estimated tax for 20XX and \$____ will be refunded.

These returns were prepared from information furnished to us/me. Before signing and filing these returns they should be reviewed carefully to be sure that there are no omissions or misstatements.

The returns are subject to review by federal, state and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that the tax records be retained for a period of at least ____ years.

Please contact us/me immediately if any notification from federal, state or local taxing agencies is received regarding tax returns.

Also enclosed are originals and copies of the federal, ____ (State) ____ and ____ (Local) ____ estimated tax payment vouchers for 20XX/the tax year ending (Date). The copies are for your files. The originals are to be filed as follows:

FEDERAL ESTIMATES

On or before each due date shown below, mail the respective voucher to:

Internal Revenue Service

(Center Address)

Enclose a check payable to "United States Treasury" in the amount indicated, noting the taxpayer identification number and "20XX Form 1041-ES" on the check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter	April 1x, 20XX	\$
Second Quarter	June 1x, 20XX	\$
Third Quarter	September 1x, 20XX	\$
Fourth Quarter	January 1x, 20XX	\$
TOTAL		\$

(STATE) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)

(Address)

Enclose a check payable to ____ (Payee) ____ in the amount indicated, noting the taxpayer identification number and "20XX Form ____" on the check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

(LOCAL) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

 (Agency)

 (Address)

Enclose a check payable to (Payee) in the amount indicated, noting "Form _____," tax period ending (Date) , and the (Local) identification number on the check.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

The estimated tax payments were based on prior year taxable year income and withholdings. Therefore, you should contact us/me concerning any changes in income or withholding.

The original documents you furnished with your organizer are enclosed.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

1065 - PARTNERSHIP TRANSMITTAL LETTER

(Date) _____

(Taxpayer) _____

(Address) _____

Dear _____ (Taxpayer) _____:

Enclosed are the originals and copies of your federal, _____ (State) _____, and _____ (Local) _____ partnership income tax returns for 20XX/the year ended (Date). The copies are for your files. The originals are to be filed as follows:

FORM 1065—The original return should be signed and dated by a general partner of the Partnership/managing member of the LLC and mailed no later than _____ (Date) _____ to:

Internal Revenue Service

(Center Address) _____

The return shows no balance due and no refund.

FORM (STATE)—The original return should be signed and dated by a general partner of the Partnership/managing member of the LLC and mailed no later than _____ (Date) _____ to:

(Agency) _____

(Address) _____

☐ The return shows no balance due and no refund.

The return shows a balance due of \$ _____. A check payable to _____ (Payee) _____ in this amount should be attached to/enclosed with the return. "Form _____," tax period ended _____ (Date) _____, and your _____ (State) _____ identification number should be noted on the check. Based upon past deposit history, you may be required to use electronic payment or funds transfer.

☐ The return shows an overpayment of \$ _____, of which \$ _____ will be refunded to you and \$ _____ will be credited to your estimated tax for 20XX/the tax year ending (Date).

FORM (LOCAL)—The original return should be signed and dated by a general partner of the Partnership/managing member of the LLC and mailed no later than _____ (Date) _____ to:

(Agency) _____

(Address) _____

☐ The return shows no balance due and no refund.

☐ The return shows a balance due of \$ _____. A check payable to _____ (Payee) _____ in this amount should be attached to/enclosed with your return. "Form _____," tax period ended _____ (Date) _____, and your _____ (Local) _____ identification number should be noted on the check. Based upon your past deposit history, you may be required to use electronic payments or funds transfer.

☐ The return shows an overpayment of \$ _____, of which \$ _____ will be refunded to you and \$ _____ will be credited to your estimated tax for 20XX/the tax year ending (Date).

Also enclosed is a Schedule K-1 for each partner. Please distribute the Schedule K-1s to the respective partners immediately.

Also enclosed are originals and copies of your (State) and (Local) estimated tax payment vouchers for 20xx/the tax year ending (date). The copies are for your files. The originals are to be filed as follows:

(STATE) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

 (Agency)
 (Address)

Enclose a check payable to (Payee) in the amount indicated, noting "Form _____," tax period ending (Date) , and your (State) identification number on the check. Based upon past payment history, you may be required to use electronic payments or funds transfer.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

(LOCAL) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

 (Agency)
 (Address)

Enclose a check payable to (Payee) in the amount indicated, noting "Form _____," tax period ending (Date) , and your (Local) identification number on the check. Based upon past history, you may be required to use electronic payments or funds transfer.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

Your estimated tax payments for 20XX/the tax year ending (Date) were calculated using taxable income of \$ _____/the same as 20XX/the tax year ended (Date). If your situation changes, contact us/me immediately to determine if your estimated payments need to be revised.

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to be sure that there are no omissions or misstatements.

Your returns are subject to review by federal, state, and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least _____ years.

Please contact us/me immediately if you receive any notification from federal, state, or local taxing agencies regarding your tax returns.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

1120 - CORPORATION TRANSMITTAL LETTER

(Date) _____

(Taxpayer) _____

(Address) _____

Dear _____ (Taxpayer) _____:

Enclosed are the originals and copies of your federal, _____ (State) _____, and _____ (Local) _____ corporation income/franchise tax returns for 20XX/the year ended (Date). The copies are for your files. The originals are to be filed as follows:

FORM 1120—The original return should be signed and dated by an authorized officer of the Corporation and mailed no later than _____ (Date) _____ to:

Internal Revenue Service

(Center Address) _____

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$ _____. Deposit this amount at a qualifying financial institution along with a completed Form 8109, "Federal Tax Deposit Coupon," on or before _____ (Date) _____. Be sure to darken the "1120" box for type of tax and the "4th Quarter" box for tax period on the Deposit Coupon. On the check indicate "Form 1120," tax period ended _____ (Date) _____, and your employer identification number. Based upon your past deposit history, you may be required to use the Electronic Funds Tax Payment System (EFTPS) method for making these deposits.
- ☐ The return shows an overpayment of \$ _____, of which \$ _____ will be refunded to you and \$ _____ will be credited to your estimated tax for 20XX/the tax year ending (Date).

FORM (STATE)—The original return should be signed and dated by an authorized officer of the Corporation and mailed no later than _____ (Date) _____ to:

(Agency) _____

(Address) _____

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$ _____. A check payable to _____ (Payee) _____ in this amount should be attached to/enclosed with the return. "Form _____," tax period ended _____ (Date) _____, and your _____ (State) _____ identification number should be noted on the check. Based upon your past payment history, you may be required to use electronic payment or funds transfer.
- ☐ The return shows an overpayment of \$ _____, of which \$ _____ will be refunded to you and \$ _____ will be credited to your estimated tax for 20XX/the tax year ending (Date).

FORM (LOCAL)—The original return should be signed and dated by an authorized officer of the Corporation and mailed no later than _____ (Date) _____ to:

(Agency) _____

(Address) _____

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$ _____. A check payable to _____ (Payee) in this amount should be attached to/enclosed with your return. "Form _____," tax period ended _____ (Date), and your _____ (Local) identification number should be noted on the check. Based upon past payment history, you may be required to use electronic payment or funds transfer.
- ☐ The return shows an overpayment of \$ _____, of which \$ _____ will be refunded to you and \$ _____ will be credited to your estimated tax for 20XX/the tax year ending (Date).

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to be sure that there are no omissions or misstatements.

Your returns are subject to review by federal, state and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least ____ years.

Please contact us/me immediately if you receive any notification from federal, state, or local taxing agencies regarding your tax returns.

Also enclosed are originals and copies of your federal, _____ (State) and _____ (Local) estimated tax payment vouchers for 20XX/the tax year ending (Date). The copies are for your files. The originals are to be filed as follows:

FEDERAL ESTIMATES

On or before each due date shown below, deposit the respective amount along with a completed Form 8109, "Federal Tax Deposit Coupon" at an authorized financial institution. Be sure to darken the "1120" box for type of tax and the appropriate box for the tax period of the quarterly deposit on the Deposit Coupon. On the check indicate "Form 1120," tax period ending (Date), and your employer identification number. Based upon your past deposit history, you may be required to use the Electronic Funds Tax Payment System (EFTPS) method for making these deposits.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

(STATE) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)

(Address)

Enclose a check payable to (Payee) in the amount indicated, noting "Form _____," tax period ending (Date) , and your (State) identification number on the check. Based upon your past payment history, you may be required to use electronic payments or funds transfer.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

(LOCAL) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

 (Agency)
 (Address)

Enclose a check payable to (Payee) in the amount indicated, noting "Form _____," tax period ending (Date) , and your (Local) identification number on the check. Based upon past payment history, you may be required to use electronic payments or funds transfer.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

Your estimated tax payments for 20XX/the tax year ending (Date) were calculated using taxable income of \$ /the same as 20XX/the tax year ended (Date). If your situation changes, contact us/me immediately to determine if your estimated payments need to be revised.

We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

1120S - S CORPORATION TRANSMITTAL LETTER

(Date) _____

(Taxpayer) _____

(Address) _____

Dear _____ (Taxpayer) _____:

Enclosed are the originals and copies of your federal, _____ (State) _____, and _____ (Local) _____ S Corporation income/franchise tax returns for 20XX/the year ended (Date). The copies are for your files. The originals are to be filed as follows:

FORM 1120S—The original return should be signed and dated by an authorized officer of the Corporation and mailed no later than _____ (Date) _____ to:

Internal Revenue Service

(Center Address) _____

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance of \$_____. Deposit this amount at a qualifying financial institution along with a completed Form 8109, "Federal Tax Deposit Coupon," on or before _____ (Date) _____. Be sure to darken the "1120" box for type of tax and the "4th Quarter" box for tax period on the Deposit Coupon. On the check indicate "Form 1120," tax period ended _____ (Date) _____ and your employer identification number. Based upon your past deposit history, you may be required to use the Electronic Fund Tax Payment System (EFTPS) method for making these deposits.
- ☐ The return shows an overpayment of \$_____, of which \$_____ will be refunded to you and \$_____ will be credited to your estimated tax for 20XX/the tax year ending (Date).

FORM (STATE)—The original return should be signed and dated by an authorized officer of the Corporation and mailed no later than _____ (Date) _____ to:

(Agency) _____

(Address) _____

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$_____. A check payable to _____ (Payee) _____ in this amount should be attached to/enclosed with the return. "Form _____," tax period ended _____ (Date) _____, and your _____ (State) _____ identification number should be noted on the check. Based upon your past payment history, you may be required to use electronic payment or funds transfer.
- ☐ The return shows an overpayment of \$_____, of which \$_____ will be refunded to you and \$_____ will be credited to your estimated tax for 20XX/the tax year ending (Date).

FORM (LOCAL)—The original return should be signed and dated by an authorized officer of the Corporation and mailed no later than _____ (Date) _____ to:

(Agency) _____

(Address) _____

- ☐ The return shows no balance due and no refund.
- ☐ The return shows a balance due of \$ _____. A check payable to _____ (Payee) in this amount should be attached to/enclosed with your return. "Form _____," tax period ended _____ (Date), and your _____ (Local) identification number should be noted on the check. Based upon past payment history, you may be required to use electronic payment or funds transfer.
- ☐ The return shows an overpayment of \$ _____, of which \$ _____ will be refunded to you and \$ _____ will be credited to your estimated tax for 20XX/the tax year ending (Date).

Also enclosed is a Schedule K-1 for each shareholder. Please distribute the Schedule K-1s to the respective shareholders immediately.

These returns were prepared from information you furnished to us/me. Before signing and filing these returns you should review them carefully to be sure that there are no omissions or misstatements.

Your returns are subject to review by federal, state, and local taxing agencies. Upon examination, requests may be made for supporting documentation. Accordingly, we/I recommend that you retain your tax records for a period of at least ____ years.

Also enclosed are originals and copies of your federal, _____ (State) and _____ (Local) estimated tax payment vouchers for 20XX/the tax year ending (Date). The copies are for your files. The originals are to be filed as follows:

FEDERAL ESTIMATES

On or before each due date shown below, deposit the respective amount along with a completed Form 8109, "Federal Tax Deposit Coupon" at an authorized financial institution. Be sure to darken the "1120" box for type of tax and the appropriate box for the tax period of the quarterly deposit on the Deposit Coupon. On the check indicate "Form 1120," tax period ending _____ (Date), and your employer identification number. Based upon your past deposit history, you may be required to use the Electronic Funds Tax Payment System (EFTPS) method for making these deposits.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

(STATE) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)

(Address)

Enclose a check payable to _____ (Payee) in the amount indicated, noting "Form _____," tax period ending _____ (Date), and your _____ (State) identification number on the check. Based upon your past payment history, you may be required to use electronic payments or funds transfer.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

(LOCAL) ESTIMATES

On or before each due date shown below, mail the respective voucher to:

(Agency)
(Address)

Enclose a check payable to (Payee) in the amount indicated, noting "Form _____," tax period ending (Date), and your (Local) identification number on the check. Based upon past payment history, you may be required to use electronic payments or funds transfer.

	Due Date	Amount
Overpayment Applied		\$
First Quarter		\$
Second Quarter		\$
Third Quarter		\$
Fourth Quarter		\$
TOTAL		\$

Your estimated tax payments for 20XX/the tax year ending (Date) were calculated using taxable income of \$ _____/the same as 20XX/the tax year ended (Date). If your situation changes, contact us/me immediately to determine if your estimated payments need to be revised.

Please contact us/me immediately if you receive any notification from federal, state, or local taxing agencies regarding your tax returns. We/I appreciate this opportunity to be of service to you. Please contact us/me should you have any questions regarding the enclosed returns or if we/I can be of any further assistance.

Very truly yours,

(Preparer)

OPTIONAL PARAGRAPHS FOR INCLUSION IN TRANSMITTAL LETTERS

A) Estimated Tax Responsibilities for Certain Corporations

Your return for 20XX either reflected no taxable income or a short year, or you had taxable income of \$1,000,000 or more for any of the three previous years. Therefore, you cannot utilize(except for the first quarter) the 100% of prior year tax safe harbor provisions in meeting your quarterly estimated tax responsibilities. Accordingly, you are required to make quarterly estimated tax payments equaling 100% of your current year tax liability. If there are any questions concerning the calculation of these quarterly payments, please contact us/me immediately.

B) Retirement Plan Contributions

1. For Individuals

We/I have deducted (a) contribution(s) to your Individual Retirement Account(s) on the enclosed tax returns as follows:

(Taxpayer) _____	\$ _____
(Spouse) _____	\$ _____

If not already made, the contribution(s) must be made on or before April 1x, 20XX.

We/I have deducted (a) contribution(s) to your Keogh/SEP/SIMPLE retirement plan(s) on the enclosed tax returns as follows:

(Keogh) _____	\$ _____
(SEP) _____	\$ _____
(SIMPLE) _____	\$ _____

If not already made, the contribution(s) must be made on or before the date you timely file your return or eight and one half months for defined benefit plans.

2. For Businesses

We/I have deducted (a) contribution(s) to your qualified retirement plan(s) on the enclosed tax returns as follows:

(Profit Sharing Plan) _____	\$ _____
(Money Purchase Pension Plan) _____	\$ _____
(Defined Benefit Pension Plan) _____	\$ _____
(Target Benefit Pension Plan) _____	\$ _____
(Other) _____	\$ _____

If not already made, the contribution(s) must be made on or before the date you timely file your return or eight and one half months for defined benefit plans.

C) Client Representation

Recent legislation specifically reinforces that you, the taxpayer, are responsible for the accuracy of your returns. Although we/I have been engaged to prepare your returns, you are ultimately responsible for them. We/I have prepared your returns using the information that you provided. We/I have not audited or independently verified the data you furnished, although we/I may have asked for further clarification on some of the information. Accordingly, you should examine the enclosed returns carefully before signing and filing them.

If there is anything on the returns that you do not understand, ask us/me to explain. It is important to ensure that the returns are true and accurate to the best of your knowledge.

CLIENT REVIEW FOR ADDITIONAL SERVICES

These forms were designed to assist practitioners in providing more complete service to their clients and increase billings from their existing client base. It is anticipated that any individual working on the account may initiate the review as different levels of personnel are likely to provide differing perspectives. The procedure may be performed on an annual basis, perhaps in conjunction with the year-end, and may then be suspended to be addressed at a more convenient time of the year. The completed form may then be routed to the various personnel in charge of the areas for which additional services are being considered, as well as to the person in charge. The respective specialists may provide their comments to the partner in charge, or whoever is deemed applicable, to determine the appropriate action to be taken. A firm may appoint a business development committee to review the completed forms on a regular basis.

As a final matter, the practitioner may wish to consider color coding these forms to facilitate routing and access by staff.

INDIVIDUAL CLIENT REVIEW FOR ADDITIONAL SERVICES

CLIENT NAME/NUMBER _____

PERSON IN CHARGE _____ PREPARED BY _____ DATE _____

ROUTE TO: _____, _____, _____, _____, _____

The following services should be considered for this client: (check applicable items)

		<u>DISPOSITION/COMMENTS</u>	<u>CLEARED BY</u>
_____	Amend prior year returns - additions, deductions, carrybacks, etc.	_____	_____
_____	Cash/credit management	_____	_____
_____	Compensation and benefit planning	_____	_____
_____	Income and AMT tax planning	_____	_____
_____	Investment and insurance evaluation and planning	_____	_____
_____	Estate planning	_____	_____
_____	Liability and risk management	_____	_____
_____	Tax Attribute Maximization: - NOL planning	_____	_____
_____	- Review for available tax credits	_____	_____
_____	Retirement funding adequacy	_____	_____
_____	Children's education funding	_____	_____
_____	Other:		
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

BUSINESS CLIENT REVIEW FOR ADDITIONAL SERVICES

CLIENT NAME/NUMBER _____

PERSON IN CHARGE _____ PREPARED BY _____ DATE _____

ROUTE TO: _____, _____, _____, _____, _____

The following services should be considered for this client: (check applicable items)

	<u>DISPOSITION/COMMENTS</u>	<u>CLEARED BY</u>
_____ Amend prior year returns - additions, deductions, carrybacks, etc.	_____	_____
_____ Business/Strategic Planning	_____	_____
_____ Buy/sell agreements	_____	_____
_____ Cash/credit management	_____	_____
_____ Change in Accounting Method: -Alternative methods to defer recognition of income	_____	_____
_____ -Alternative methods to accelerate expense recognition	_____	_____
_____ Alternative methods to minimize AMT	_____	_____
_____ Enhance or change accounting system	_____	_____
_____ Change tax year	_____	_____
_____ Compensation and benefit planning: -Retirement plans (retirement/401(k))	_____	_____
_____ -Deferred compensation plans	_____	_____
_____ -Flexible benefit plans	_____	_____
_____ -Medical reimbursement	_____	_____
_____ Computer Services: -has no computer, may need one	_____	_____
_____ -has computer, may need internal control review	_____	_____
_____ -has computer, needs assistance	_____	_____
_____ -needs PC network or enhancements	_____	_____
_____ Disaster recovery planning	_____	_____
_____ Estate or succession planning	_____	_____
_____ Finance and banking relations	_____	_____
_____ Income tax planning	_____	_____
_____ State and Local Tax Planning: -Income and franchise tax	_____	_____

BUSINESS CLIENT REVIEW FOR ADDITIONAL SERVICES

		<u>DISPOSITION/COMMENTS</u>	<u>CLEARED BY</u>
_____	–Ad valorem/property tax	_____	_____
_____	–Sales and use taxes	_____	_____
_____	–Excise taxes and duties compliance review and planning	_____	_____
	Tax Attribute Maximization:		
_____	–NOL planning	_____	_____
_____	–Review for available tax credits	_____	_____
_____	–Review for applicable economic development and other business promotion incentives	_____	_____
_____	MAS service – financial, marketing, operations, etc.	_____	_____
_____	Owner and/or executive retirement or financial planning	_____	_____
_____	Risk management	_____	_____
_____	Tax entity changes - incorporation, S election, liquidation, etc.	_____	_____
	Other:		
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

VEHICLE RELATED GUIDES

EMPLOYER POLICIES REGARDING USE OF COMPANY VEHICLES

Three policies have been included that may be provided to clients as examples. Policies 1 and 2 are optional for an employer. Policy 3 is required in some form by all employers providing company-owned personal use vehicles. The policies should be reviewed to determine if there are conflicts with state or local laws.

EMPLOYEE REPRESENTATION REGARDING USE OF COMPANY VEHICLE AND WORKSHEET TO CALCULATE INCOME FROM PERSONAL USE OF COMPANY VEHICLE

The IRS requires the value of the personal use of employer provided vehicles to be included in the compensation of the employee if the employee does not reimburse the employer. Forms are included for the employer to collect the necessary data from the employee and calculate the value of the personal use.

WORKSHEET TO CALCULATE “INCLUSION AMOUNT” FOR LEASED VEHICLES

The IRS requires lessees of luxury vehicles to calculate an “inclusion amount” to be included in their gross income. This inclusion amount must be considered by taxpayers that have leased a vehicle for a term of 30 days or more. By means of the inclusion amount, the law attempts to limit the taxpayer’s lease payment deductions to the amount that would have been deductible under the limited depreciation rules had the taxpayer purchased the vehicle. Enclosed are various worksheets to calculate the amount includible in income by the lessee. Select the appropriate worksheet based on the lease date of the vehicle.

SAMPLE AUTOMOBILE USAGE POLICIES

1. POLICY PROHIBITING ALL PERSONAL USE OF COMPANY VEHICLES

Management has adopted the following policy regarding personal use of Company-owned vehicles:

Vehicles owned or leased by this Company are to be used solely for Company business. There shall be no personal use of the vehicles (including commuting to and from work). Individuals driving Company vehicles may have occasions where an incidental stop is necessary between business stops. Such use shall not be considered to be in violation of this policy.

The Company requires that vehicles not in use shall be parked in designated areas on the Company premises. No personal items are to be stored in the vehicles. Company materials and supplies are to be secured in the trunk, lock boxes or within the Company offices.

Keys are to be returned to _____ upon the close of business each day.

SAMPLE AUTOMOBILE USAGE POLICIES

2. POLICY PROHIBITING ALL PERSONAL USE OF COMPANY VEHICLES EXCEPT COMMUTING

Management has adopted the following policy regarding personal use of Company-owned vehicles:

For business reasons, certain employees have been designated to drive a Company-owned vehicle to and from their residence. This shall be the only authorized personal use of the vehicle. Individuals driving Company vehicles may have occasions where an incidental stop is necessary between business stops. Such use shall not be considered to be in violation of this policy.

The Company requires that no personal items other than incidentals be stored in the vehicle. The vehicle is to be locked when not in use with work articles stored either in the lock box or trunk during times when the vehicle is not in use.

The Company will compute a daily value for the commuting which will be included in the employee's Form W-2 at the end of the calendar year. Such amount will be the minimum allowed by federal income tax laws.

Note: Internal Revenue Service regulations require the Company to maintain evidence which would enable the IRS to determine whether use of the vehicle is in accordance with policy maintained by the Company.

SAMPLE AUTOMOBILE USAGE POLICIES

3. POLICY REGARDING CUT-OFF DATE TO CALCULATE THE VALUE OF PERSONAL USE OF COMPANY-OWNED VEHICLES

Management has adopted the following policy regarding computation of the taxable value of the personal and commuting use of Company-owned vehicles:

The personal and commuting use of Company vehicles will be computed for the twelve months ending _____ (October 31, November 30 or December 31).

Annually, the Company requires you to provide a complete accounting of the personal use of the vehicle as of _____. The taxable value of the personal use will be computed using the least costly method allowable by tax law.

This income will be considered paid as of _____ and federal, state (if appropriate) and Social Security/Medicare* withholding will be deducted from your _____ paycheck.

OR

The taxable value and related withholding amounts will be reflected on your Form W-2 at year-end.

Please address your questions to _____.

- * The company may elect to withhold only Social Security/Medicare. If so the paragraph should read as follows:

This income will be considered paid as of _____ and Social Security/Medicare withholding will be deducted from your _____ paycheck.

EMPLOYEE REPRESENTATION REGARDING
USE OF COMPANY VEHICLE

The IRS requires employers to provide certain information on their tax return with respect to the vehicles provided to employees. This information is also used to calculate the amount of the fringe benefit to be included in the employee's Form W-2 income.

The IRS generally requires that written records be maintained to document the business use of vehicles. Since the company policy requires employees to maintain the detailed records, please provide answers to the following questions. If you were provided more than one vehicle that was used during the year, you need to prepare a separate statement for each vehicle.

The completed form must be returned no later than _____ or 100% of the value of the use of the vehicle will be included in your Form W-2 income.
(date)

Description of vehicle _____

Reporting period from _____ to _____

Odometer reading: Beginning _____ Ending _____

Employee Representation

(1) Was the vehicle available for your personal use during off-duty hours? YES NO

(2) Did you have another vehicle available for your personal use (this includes a vehicle you own personally)? YES NO

(3) Are you an officer or 1% or more owner of the business? YES NO

(4) How many commuting round trips did you make in this vehicle? _____

(5) For the reporting period specified above, please provide the number of miles for each of the following categories:

 Total commuting miles _____

 Total other personal (non-commuting) miles _____

 Total personal miles _____

 Total business miles _____

(6) Did the employer pay the cost of fuel consumed by this vehicle? YES NO

(EMPLOYEE SIGNATURE)

(DATE)

WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE
FOR CALENDAR YEAR 2004

EMPLOYEE: _____

DESCRIPTION OF VEHICLE: _____

DATE VEHICLE FIRST MADE AVAILABLE TO ANY EMPLOYEE: _____

DATE VEHICLE FIRST MADE AVAILABLE TO THIS EMPLOYEE: _____

Select one method (note limitations on methods II and III)

METHOD I - ANNUAL LEASE VALUE METHOD (For Vehicles Available 30 Days or More)

Fair market value of vehicle (to be redetermined at the beginning of the fifth year and every four years thereafter)	\$	_____
Annual lease value, per attached chart	\$	_____ ⁽¹⁾
Enter number of days during the year that the vehicle was available	x	_____
Divide by number of days in tax year	÷	_____
Prorated annual lease value	=	_____
Personal use % (personal/total miles, per statement from employee)	x	_____ %
Personal annual lease value	= \$	_____
If fuel is provided by employer, enter personal miles _____ x _____ ⁽²⁾	+	_____ +
Personal use taxable income	= \$	_____

⁽¹⁾For autos available for 7 days or less, multiply the annual lease value by 4. If the availability is more than 7 days, but less than 30, the taxpayer may elect to use the annual lease value without the 4 multiplier.

⁽²⁾If fuel is provided "in kind," the fair market value may be determined based on all facts and circumstances or, alternatively, at 5½ cents per mile if auto usage is within the U.S., Canada, and Mexico. Generally, where fuel is purchased and charged to the employer, the actual cost or reimbursement should be used. If employers with a fleet of 20 or more vehicles reimburse or allow employees to charge fuel cost, the fleet-average cents per mile may be used. If the fleet employer determines that actual cost or fleet average methods are unreasonable administrative burdens, the 5½ cents per mile may be used.

WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE FOR
CALENDAR YEAR 2004

METHOD II - STANDARD MILEAGE RATE METHOD

Generally, in order to qualify to use the cents-per-mile method, the vehicle must: (1) be expected to be regularly used in the employer's business throughout the calendar year, or (2) be driven at least 10,000 miles per year, and (3) have a fair market value of \$14,800 or less. Once this method is adopted for a particular vehicle, it must be continued until the vehicle no longer qualifies.

Enter personal miles	_____ x \$0.375=	\$ _____
If fuel is NOT provided by the Employer enter personal miles	_____ x \$0.055 =	(_____)
Personal use taxable income		\$ _____

METHOD III - SPECIAL COMMUTING METHOD

This method may only be used for vehicles covered by a written policy that allows commuting but no other personal use. DO NOT USE if employee is a 1% or more owner, an officer with compensation of \$80,000 or more, or an individual with compensation equaling or exceeding \$165,000.

Number of commuting round trips made	_____
Value per round trip	x _____ \$ 3.00
Personal use taxable income	\$ _____

WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE

ANNUAL LEASE VALUE TABLE

<u>AUTOMOBILE FAIR MARKET VALUE</u>	<u>ANNUAL LEASE VALUE</u>	<u>AUTOMOBILE FAIR MARKET VALUE</u>	<u>ANNUAL LEASE VALUE</u>
\$ 0- 999	600	22,000-22,999	6,100
1,000- 1,999	850	23,000-23,999	6,350
2,000- 2,999	1,100	24,000-24,999	6,600
3,000- 3,999	1,350	25,000-25,999	6,850
4,000- 4,999	1,600	26,000-27,999	7,250
5,000- 5,999	1,850	28,000-29,999	7,750
6,000- 6,999	2,100	30,000-31,999	8,250
7,000- 7,999	2,350	32,000-33,999	8,750
8,000- 8,999	2,600	34,000-35,999	9,250
9,000- 9,999	2,850	36,000-37,999	9,750
10,000-10,999	3,100	38,000-39,999	10,250
11,000-11,999	3,350	40,000-41,999	10,750
12,000-12,999	3,600	42,000-43,999	11,250
13,000-13,999	3,850	44,000-45,999	11,750
14,000-14,999	4,100	46,000-47,999	12,250
15,000-15,999	4,350	48,000-49,999	12,750
16,000-16,999	4,600	50,000-51,999	13,250
17,000-17,999	4,850	52,000-53,999	13,750
18,000-18,999	5,100	54,000-55,999	14,250
19,000-19,999	5,350	56,000-57,999	14,750
20,000-20,999	5,600	58,000-59,999	15,250
21,000-21,999	5,850		

For vehicles having a fair market value in excess of \$59,999, the Annual Lease Value is equal to:
(.25 x automobile fair market value) + \$500.

LEASED VEHICLES
WORKSHEET TO CALCULATE INCLUSION AMOUNT

Description of vehicle: _____

Date of lease: _____

Lease term: _____

Fair market value of vehicle at inception of lease: _____

Dollar amount per attached tables. (Select the appropriate table based on the inception date of the lease.)

\$ _____⁽¹⁾

Enter number of days during the year that the vehicle was leased.

x _____

Divide by number of days in tax year.

÷ _____

Prorated dollar amount.

= \$ _____

Business use % (business/total miles).

x _____%⁽²⁾

Prorated inclusion amount.

= \$ _____

⁽¹⁾The dollar amount for the preceding year is used for the last tax year of the lease.

⁽²⁾Use 100% if all expenses are deducted by the employer and the personal use value is added to the employee's income.

**Worksheet to Calculate “Inclusion Amount” for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1998**

Fair Market Value of Automobile		Tax Year During Lease*				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$15,800	16,100	1	5	8	12	14
16,100	16,400	4	10	16	22	25
16,400	16,700	6	15	25	31	36
16,700	17,000	9	20	33	41	47
17,000	17,500	12	28	43	53	62
17,500	18,000	16	37	56	70	80
18,000	18,500	20	46	70	85	99
18,500	19,000	24	55	83	101	117
19,000	19,500	28	64	96	117	136
19,500	20,000	32	73	110	133	154
20,000	20,500	36	82	123	149	173
20,500	21,000	40	91	136	165	191
21,000	21,500	45	99	150	181	209
21,500	22,000	49	108	163	197	228
22,000	23,000	55	122	183	221	255
23,000	24,000	63	140	210	252	292
24,000	25,000	71	158	236	285	329
25,000	26,000	79	176	263	316	366
26,000	27,000	88	193	290	348	403
27,000	28,000	96	211	317	380	439
28,000	29,000	104	229	343	412	477
29,000	30,000	112	247	370	444	513
30,000	31,000	120	265	396	476	550
31,000	32,000	128	283	423	508	587
32,000	33,000	137	301	449	540	624
33,000	34,000	145	319	476	571	661
34,000	35,000	153	337	502	604	697
35,000	36,000	161	355	529	635	735
36,000	37,000	169	373	556	667	771
37,000	38,000	178	391	582	699	808
38,000	39,000	186	409	608	731	845
39,000	40,000	194	427	635	763	882
40,000	41,000	202	445	662	794	919
41,000	42,000	210	463	688	827	955
42,000	43,000	218	481	715	859	992
43,000	44,000	227	498	742	891	1,028
44,000	45,000	235	516	769	922	1,066
45,000	46,000	243	534	795	955	1,102
46,000	47,000	251	552	822	986	1,140
47,000	48,000	259	570	849	1,018	1,176

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease*				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
48,000	49,000	268	588	875	1,050	1,213
49,000	50,000	276	606	901	1,082	1,250
50,000	51,000	284	624	928	1,114	1,286
51,000	52,000	292	642	955	1,145	1,324
52,000	53,000	300	660	981	1,178	1,360
53,000	54,000	308	678	1,008	1,209	1,398
54,000	55,000	317	695	1,035	1,241	1,434
55,000	56,000	325	713	1,062	1,273	1,471
56,000	57,000	333	732	1,087	1,305	1,508
57,000	58,000	341	750	1,114	1,337	1,544
58,000	59,000	349	768	1,140	1,369	1,582
59,000	60,000	358	785	1,168	1,400	1,619
60,000	62,000	370	812	1,207	1,449	1,674
62,000	64,000	386	848	1,261	1,512	1,747
64,000	66,000	403	884	1,313	1,577	1,821
66,000	68,000	419	920	1,367	1,640	1,894
68,000	70,000	435	956	1,420	1,704	1,968
70,000	72,000	452	991	1,474	1,767	2,042
72,000	74,000	468	1,027	1,527	1,832	2,115
74,000	76,000	484	1,063	1,580	1,896	2,189
76,000	78,000	501	1,099	1,633	1,959	2,263
78,000	80,000	517	1,135	1,686	2,023	2,337
80,000	85,000	546	1,198	1,779	2,134	2,466
85,000	90,000	587	1,287	1,913	2,294	2,649
90,000	95,000	627	1,377	2,046	2,453	2,834
95,000	100,000	668	1,467	2,178	2,613	3,018
100,000	110,000	730	1,601	2,378	2,852	3,294
110,000	120,000	812	1,780	2,644	3,172	3,662
120,000	130,000	893	1,960	2,910	3,490	4,031
130,000	140,000	975	2,139	3,176	3,810	4,398
140,000	150,000	1,057	2,318	3,443	4,128	4,767
150,000	160,000	1,139	2,498	3,708	4,447	5,135
160,000	170,000	1,221	2,677	3,974	4,766	5,504
170,000	180,000	1,302	2,857	4,240	5,085	5,872
180,000	190,000	1,384	3,036	4,506	5,404	6,241
190,000	200,000	1,466	3,215	4,772	5,724	6,608
200,000	210,000	1,548	3,394	5,039	6,042	6,977
210,000	220,000	1,630	3,574	5,304	6,361	7,345
220,000	230,000	1,712	3,753	5,570	6,680	7,714
230,000	240,000	1,793	3,932	5,837	6,999	8,082
240,000	250,000	1,875	4,112	6,102	7,318	8,450

Worksheet to Calculate "Inclusion Amount" for Leased Vehicles
Dollar Amounts for Electric Automobiles with a Lease Term Beginning
in Calendar Year 1998

Fair Market Value of Automobile		Tax Year During Lease*				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$47,000	48,000	5	11	18	21	23
48,000	49,000	13	29	45	52	60
49,000	50,000	21	47	71	85	96
50,000	51,000	29	65	98	116	134
51,000	52,000	38	83	124	148	171
52,000	53,000	46	101	151	180	207
53,000	54,000	54	119	177	212	244
54,000	55,000	62	137	204	244	281
55,000	56,000	70	155	231	275	318
56,000	57,000	79	172	258	307	355
57,000	58,000	87	190	284	340	391
58,000	59,000	95	208	311	372	428
59,000	60,000	103	226	338	403	465
60,000	62,000	115	253	378	451	520
62,000	64,000	132	289	430	515	594
64,000	66,000	148	325	484	578	668
66,000	68,000	164	361	537	643	741
68,000	70,000	181	396	591	706	815
70,000	72,000	197	432	644	770	888
72,000	74,000	214	468	697	834	962
74,000	76,000	230	504	750	898	1,035
76,000	78,000	246	540	803	962	1,109
78,000	80,000	263	576	856	1,025	1,183
80,000	85,000	291	639	949	1,137	1,312
85,000	90,000	332	728	1,083	1,296	1,496
90,000	95,000	373	818	1,215	1,456	1,681
95,000	100,000	414	908	1,348	1,615	1,865
100,000	110,000	475	1,042	1,548	1,855	2,141
110,000	120,000	557	1,221	1,814	2,174	2,509
120,000	130,000	639	1,401	2,080	2,492	2,878
130,000	140,000	721	1,580	2,346	2,812	3,245
140,000	150,000	803	1,759	2,612	3,131	3,614
150,000	160,000	884	1,939	2,878	3,450	3,982
160,000	170,000	966	2,118	3,144	3,769	4,350
170,000	180,000	1,048	2,297	3,410	4,088	4,719
180,000	190,000	1,130	2,477	3,676	4,406	5,087
190,000	200,000	1,212	2,656	3,942	4,726	5,455
200,000	210,000	1,293	2,835	4,209	5,044	5,824
210,000	220,000	1,375	3,015	4,474	5,364	6,191
220,000	230,000	1,457	3,194	4,740	5,683	6,560
230,000	240,000	1,539	3,373	5,006	6,002	6,928
240,000	250,000	1,621	3,552	5,273	6,320	7,297

*For the last tax year of the lease, use the dollar amount for the preceding year.

**Worksheet to Calculate “Inclusion Amount” for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 1999**

Fair Market Value of Automobile		Tax Year During Lease*				
Over	Not Over	1st	2nd	3 rd	4th	5 th and Later
15,500	15,800	2	3	4	4	6
15,800	16,100	4	7	10	13	14
16,100	16,400	6	11	17	20	23
16,400	16,700	8	15	23	28	32
16,700	17,000	10	20	29	35	41
17,000	17,500	13	25	38	45	53
17,500	18,000	16	32	48	58	68
18,000	18,500	19	39	59	71	82
18,500	19,000	22	47	69	83	96
19,000	19,500	26	53	80	96	111
19,500	20,000	29	61	90	108	126
20,000	20,500	32	68	101	121	140
20,500	21,000	35	75	111	134	155
21,000	21,500	39	82	122	146	169
21,500	22,000	42	89	132	160	183
22,000	23,000	47	100	148	178	206
23,000	24,000	53	114	169	204	235
24,000	25,000	60	128	190	229	264
25,000	26,000	66	142	212	254	293
26,000	27,000	73	156	233	279	322
27,000	28,000	79	171	253	305	351
28,000	29,000	85	185	275	330	380
29,000	30,000	92	199	296	355	410
30,000	31,000	98	214	316	381	439
31,000	32,000	105	227	338	406	468
32,000	33,000	111	242	359	431	497
33,000	34,000	118	256	380	456	527
34,000	35,000	124	270	402	481	556
35,000	36,000	131	284	423	506	585
36,000	37,000	137	299	443	532	614
37,000	38,000	144	313	464	557	643
38,000	39,000	150	327	486	582	672
39,000	40,000	157	341	507	607	702
40,000	41,000	163	355	528	633	731
41,000	42,000	170	369	549	658	760
42,000	43,000	176	384	570	683	789
43,000	44,000	183	398	591	708	819
44,000	45,000	189	412	612	734	848
45,000	46,000	196	426	633	759	877
46,000	47,000	202	441	654	784	906
47,000	48,000	208	455	675	810	935

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease*				
Over	Not Over	1st	2nd	3rd	4th	5 th and Later
48,000	49,000	215	469	696	835	964
49,000	50,000	221	483	718	860	993
50,000	51,000	228	497	739	885	1,023
51,000	52,000	234	512	759	911	1,052
52,000	53,000	241	526	780	936	1,081
53,000	54,000	247	540	802	961	1,110
54,000	55,000	254	554	823	986	1,140
55,000	56,000	260	569	843	1,012	1,169
56,000	57,000	267	582	865	1,037	1,198
57,000	58,000	273	597	886	1,062	1,227
58,000	59,000	280	611	907	1,087	1,256
59,000	60,000	286	625	928	1,113	1,285
60,000	62,000	296	646	960	1,151	1,329
62,000	64,000	309	675	1,002	1,201	1,387
64,000	66,000	322	703	1,044	1,252	1,446
66,000	68,000	335	732	1,086	1,302	1,504
68,000	70,000	348	760	1,128	1,353	1,563
70,000	72,000	361	788	1,171	1,403	1,621
72,000	74,000	374	817	1,212	1,454	1,679
74,000	76,000	387	845	1,255	1,504	1,738
76,000	78,000	399	874	1,297	1,555	1,796
78,000	80,000	412	902	1,339	1,606	1,854
80,000	85,000	435	952	1,413	1,694	1,956
85,000	90,000	467	1,023	1,518	1,821	2,102
90,000	95,000	500	1,094	1,623	1,947	2,248
95,000	100,000	532	1,165	1,729	2,073	2,394
100,000	110,000	581	1,271	1,887	2,263	2,612
110,000	120,000	645	1,414	2,097	2,516	2,904
120,000	130,000	710	1,556	2,308	2,768	3,196
130,000	140,000	775	1,697	2,519	3,021	3,488
140,000	150,000	840	1,839	2,730	3,274	3,779
150,000	160,000	904	1,982	2,940	3,526	4,072
160,000	170,000	969	2,124	3,151	3,779	4,363
170,000	180,000	1,034	2,265	3,362	4,032	4,655
180,000	190,000	1,099	2,407	3,573	4,284	4,947
190,000	200,000	1,163	2,550	3,783	4,537	5,238
200,000	210,000	1,228	2,692	3,994	4,789	5,530
210,000	220,000	1,293	2,833	4,205	5,043	5,822
220,000	230,000	1,358	2,975	4,416	5,295	6,114
230,000	240,000	1,422	3,118	4,626	5,548	6,405
240,000	250,000	1,487	3,260	4,837	5,800	6,697

**Worksheet to Calculate “Inclusion Amount” for Leased Vehicles
Dollar Amounts for Electric Automobiles with a Lease Term Beginning
in Calendar Year 1999**

Fair Market Value of Automobile		Tax Year During Lease*				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
47,000	48,000	7	14	21	26	30
48,000	49,000	14	28	42	51	59
49,000	50,000	20	43	62	77	88
50,000	51,000	27	57	83	102	118
51,000	52,000	33	71	105	127	147
52,000	53,000	39	86	126	151	177
53,000	54,000	46	100	147	177	205
54,000	55,000	52	114	168	202	235
55,000	56,000	59	128	189	228	264
56,000	57,000	65	142	211	253	292
57,000	58,000	72	156	232	278	322
58,000	59,000	79	171	252	304	351
59,000	60,000	85	185	273	329	380
60,000	62,000	95	206	305	367	424
62,000	64,000	107	235	347	417	483
64,000	66,000	120	263	389	468	541
66,000	68,000	133	291	432	518	600
68,000	70,000	146	320	473	569	658
70,000	72,000	159	348	516	619	716
72,000	74,000	172	377	558	669	775
74,000	76,000	185	405	600	720	833
76,000	78,000	198	433	643	771	891
78,000	80,000	211	462	684	822	949
80,000	85,000	234	511	758	910	1,052
85,000	90,000	266	582	864	1,036	1,198
90,000	95,000	298	654	968	1,163	1,343
95,000	100,000	331	724	1,075	1,289	1,469
100,000	110,000	379	831	1,232	1,479	1,708
110,000	120,000	444	973	1,443	1,731	2,000
120,000	130,000	509	1,115	1,654	1,984	2,291
130,000	140,000	574	1,257	1,864	2,237	2,583
140,000	150,000	638	1,399	2,075	2,490	2,875
150,000	160,000	703	1,541	2,286	2,742	3,167
160,000	170,000	768	1,683	2,497	2,994	3,459
170,000	180,000	833	1,825	2,707	3,248	3,750
180,000	190,000	897	1,967	2,918	3,500	4,042
190,000	200,000	962	2,109	3,129	3,753	4,333
200,000	210,000	1,027	2,251	3,340	4,005	4,625
210,000	220,000	1,092	2,393	3,550	4,258	4,917
220,000	230,000	1,156	2,535	3,761	4,511	5,209
230,000	240,000	1,221	2,677	3,972	4,763	5,501
240,000	250,000	1,286	2,819	4,183	5,016	5,792

*For the last tax year of the lease, use the dollar amount for the preceding year.

**Worksheet to Calculate “Inclusion Amount” for Leased Vehicles
Dollar Amounts for Automobiles with a Lease Term Beginning
in Calendar Year 2000**

Fair Market Value of Automobile		Tax Year During Lease*				
Over	Not Over	1st	2nd	3 rd	4th	5 th and Later
15,500	15,800	3	6	9	10	12
15,800	16,100	5	12	17	20	23
16,100	16,400	8	17	25	30	34
16,400	16,700	10	23	33	40	45
16,700	17,000	13	28	42	49	57
17,000	17,500	16	36	52	62	72
17,500	18,000	20	45	66	78	91
18,000	18,500	25	54	79	95	109
18,500	19,000	29	63	93	111	128
19,000	19,500	33	72	107	127	147
19,500	20,000	37	81	121	143	166
20,000	20,500	41	91	133	160	185
20,500	21,000	45	100	147	176	204
21,000	21,500	50	109	160	193	222
21,500	22,000	54	118	174	209	241
22,000	23,000	60	132	194	234	269
23,000	24,000	68	150	222	266	306
24,000	25,000	77	168	249	298	345
25,000	26,000	85	187	276	331	381
26,000	27,000	93	205	303	364	419
27,000	28,000	102	223	330	396	457
28,000	29,000	110	241	358	429	494
29,000	30,000	119	259	385	461	532
30,000	31,000	127	278	412	493	570
31,000	32,000	135	296	439	527	607
32,000	33,000	144	314	467	558	645
33,000	34,000	152	333	493	591	683
34,000	35,000	160	351	521	623	720
35,000	36,000	169	369	548	656	757
36,000	37,000	177	388	574	689	795
37,000	38,000	185	406	602	721	833
38,000	39,000	194	424	629	754	870
39,000	40,000	202	443	656	786	908
40,000	41,000	210	461	683	819	946
41,000	42,000	219	479	710	852	983
42,000	43,000	227	497	738	884	1,021
43,000	44,000	235	516	765	916	1,058
44,000	45,000	244	534	792	949	1,095
45,000	46,000	252	552	819	982	1,133
46,000	47,000	260	571	846	1,014	1,171
47,000	48,000	269	589	873	1,047	1,208

*For the last tax year of the lease, use the dollar amount for the preceding year.

Fair Market Value of Automobile		Tax Year During Lease*				
Over	Not Over	1st	2nd	3rd	4th	5 th and Later
48,000	49,000	277	607	901	1,079	1,246
49,000	50,000	285	626	927	1,112	1,284
50,000	51,000	294	644	954	1,145	1,321
51,000	52,000	302	662	982	1,177	1,359
52,000	53,000	311	680	1,009	1,210	1,396
53,000	54,000	319	699	1,036	1,242	1,433
54,000	55,000	327	717	1,063	1,275	1,471
55,000	56,000	336	735	1,090	1,308	1,508
56,000	57,000	344	754	1,117	1,340	1,546
57,000	58,000	352	772	1,145	1,372	1,584
58,000	59,000	361	790	1,172	1,405	1,621
59,000	60,000	369	808	1,199	1,438	1,659
60,000	62,000	381	836	1,240	1,486	1,715
62,000	64,000	398	873	1,294	1,551	1,790
64,000	66,000	415	909	1,348	1,617	1,865
66,000	68,000	432	945	1,403	1,681	1,941
68,000	70,000	448	982	1,457	1,747	2,016
70,000	72,000	465	1,019	1,511	1,811	2,092
72,000	74,000	482	1,055	1,566	1,876	2,166
74,000	76,000	498	1,092	1,620	1,942	2,241
76,000	78,000	515	1,129	1,673	2,007	2,317
78,000	80,000	532	1,165	1,728	2,072	2,392
80,000	85,000	561	1,229	1,823	2,186	2,523
85,000	90,000	603	1,320	1,959	2,349	2,711
90,000	95,000	644	1,412	2,095	2,511	2,899
95,000	100,000	686	1,504	2,230	2,674	3,087
100,000	110,000	749	1,641	2,433	2,918	3,369
110,000	120,000	832	1,824	2,705	3,243	3,745
120,000	130,000	916	2,006	2,977	3,569	4,120
130,000	140,000	999	2,190	3,248	3,894	4,496
140,000	150,000	1,083	2,372	3,520	4,219	4,872
150,000	160,000	1,166	2,556	3,790	4,545	5,248
160,000	170,000	1,250	2,738	4,062	4,871	5,623
170,000	180,000	1,333	2,921	4,334	5,196	5,998
180,000	190,000	1,416	3,105	4,605	5,521	6,374
190,000	200,000	1,500	3,287	4,877	5,846	6,750
200,000	210,000	1,583	3,470	5,148	6,172	7,126
210,000	220,000	1,667	3,653	5,419	6,498	7,501
220,000	230,000	1,750	3,836	5,691	6,823	7,877
230,000	240,000	1,834	4,019	5,962	7,148	8,253
240,000	250,000	1,917	4,202	6,233	7,474	8,629

**Worksheet to Calculate “Inclusion Amount” for Leased Vehicles
Dollar Amounts for Electric Automobiles with a Lease Term Beginning
in Calendar Year 2000**

Fair Market Value of Automobile		Tax Year During Lease*				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
47,000	48,000	7	17	26	32	36
48,000	49,000	14	31	47	57	66
49,000	50,000	20	45	69	82	95
50,000	51,000	27	59	90	107	124
51,000	52,000	33	74	110	133	153
52,000	53,000	39	88	132	157	183
53,000	54,000	46	102	153	183	211
54,000	55,000	52	116	174	209	240
55,000	56,000	59	130	195	234	270
56,000	57,000	65	145	216	259	299
57,000	58,000	72	159	237	284	328
58,000	59,000	78	173	258	310	357
59,000	60,000	85	187	279	335	387
60,000	62,000	95	208	311	373	430
62,000	64,000	107	237	353	423	489
64,000	66,000	120	266	394	474	547
66,000	68,000	133	294	437	524	606
68,000	70,000	146	322	480	574	664
70,000	72,000	159	351	521	625	723
72,000	74,000	172	379	564	675	781
74,000	76,000	185	407	606	727	838
76,000	78,000	198	436	648	777	897
78,000	80,000	211	464	690	828	955
80,000	85,000	234	514	763	916	1,058
85,000	90,000	266	585	869	1,042	1,204
90,000	95,000	298	656	975	1,168	1,350
95,000	100,000	331	727	1,080	1,295	1,495
100,000	110,000	379	834	1,237	1,485	1,714
110,000	120,000	444	975	1,449	1,737	2,006
120,000	130,000	509	1,117	1,660	1,990	2,297
130,000	140,000	574	1,259	1,870	2,243	2,589
140,000	150,000	638	1,402	2,080	2,496	2,881
150,000	160,000	703	1,543	2,292	2,748	3,173
160,000	170,000	768	1,685	2,503	3,000	3,465
170,000	180,000	833	1,827	2,713	3,254	3,756
180,000	190,000	897	1,970	2,923	3,506	4,049
190,000	200,000	962	2,112	3,134	3,759	4,340
200,000	210,000	1,027	2,253	3,346	4,011	4,632
210,000	220,000	1,092	2,395	3,556	4,264	4,924
220,000	230,000	1,156	2,538	3,766	4,517	5,215
230,000	240,000	1,221	2,680	3,977	4,769	5,507
240,000	250,000	1,286	2,821	4,189	5,022	5,798

*For the last tax year of the lease, use the dollar amount for the preceding year.

Rev. Proc. 2001-19

SECTION 1. PURPOSE

This revenue procedure provides: (1) limitations on depreciation deductions for owners of passenger automobiles first placed in service during calendar year 2001, including separate limitations on passenger automobiles designed to be propelled primarily by electricity and built by an original equipment manufacturer (electric automobiles); (2) the amounts to be included in income by lessees of passenger automobiles first leased during calendar year 2001, including separate inclusion amounts for electric automobiles; and (3) the maximum allowable value of employer-provided automobiles first made available to employees for personal use in calendar year 2001 for which the vehicle cents-per-mile valuation rule provided under § 1.61-21(e) of the Income Tax Regulations may be applicable. The tables detailing these depreciation limitations and lessee inclusion amounts reflect the automobile price inflation adjustments required by § 280F(d)(7) of the Internal Revenue Code. The maximum allowable automobile value for applying the vehicle cents-per-mile valuation rule reflects the automobile price inflation adjustment of § 280F(d)(7) as required by § 1.61-21(e)(1)(iii)(A).

SECTION 2. BACKGROUND

For owners of automobiles, § 280F(a) imposes dollar limitations on the depreciation deduction for the year that the automobile is placed in service and each succeeding year. In the case of electric automobiles placed in service after August 5, 1997, and before January 1, 2005, § 280F(a)(1)(C) requires tripling of these limitation amounts. Section 280F(d)(7) requires the amounts allowable as depreciation deductions to be increased by a price inflation adjustment amount for passenger automobiles placed in service after 1988.

For leased automobiles, § 280F(c) requires a reduction in the deduction

allowed to the lessee of the automobile. The reduction must be substantially equivalent to the limitations on the depreciation deductions imposed on owners of automobiles. Under § 1.280F-7(a), this reduction requires the lessees to include in gross income an inclusion amount determined by applying a formula to the amount obtained from a table. There is a table for lessees of electric automobiles and a table for all other passenger automobiles. Each table shows inclusion amounts for a range of fair market values for each tax year after the automobile is first leased.

For automobiles first provided by employers to employees that meet the requirements of § 1.61-21(e)(1), the value to the employee of the use of the automobile may be determined under the vehicle cents-per-mile valuation rule of § 1.61-21(e). Section 1.61-21(e)(1)(iii)(A) provides that for an automobile first made available after 1988 to any employee of the employer for personal use, the value of the use of the automobile may not be determined under the vehicle cents-per-mile valuation rule for a calendar year if the fair market value of the automobile (determined pursuant to § 1.61-21(d)(5)(i) through (iv)) on the first date the automobile is made available to the employee exceeds \$12,800 as adjusted by § 280F(d)(7).

SECTION 3. SCOPE AND OBJECTIVE

01. The limitations on depreciation deductions in section 4.02 of this revenue procedure apply to automobiles (other than leased automobiles) that are placed in service in calendar year 2001 and continue to apply for each tax year that the automobile remains in service.

02. The tables in section 4.03 of this revenue procedure apply to leased automobiles for which the lease term begins in calendar year 2001. Lessees of such automobiles must use these tables to determine the inclusion amount for each tax year during which the automobile is leased.

03. Rev. Proc. 96-25, 1996-1 C.B. 681, for information on determining inclusion amounts for automobiles first leased before January 1, 1997; Rev. Proc. 97-20, 1997-1 C.B. 647, for automobiles first leased during calendar year 1997, including electric automobiles first leased

on or after January 1, 1997, and before August 6, 1997; Rev. Proc. 98-24, 1998-1 C.B. 663, for electric automobiles first leased after August 5, 1997, and before January 1, 1998; Rev. Proc. 98-30, 1998-1 C.B. 930, for all automobiles first leased in calendar year 1998; Rev. Proc. 99-14, 1999-1 C.B. 413, for all automobiles first leased in calendar year 1999; and Rev. Proc. 2000-18, 2000-9 I.R.B. 722, for all automobiles first leased in calendar year 2000.

04. The maximum fair market value figure in section 4.04(2) of this revenue procedure applies to employer-provided automobiles first made available to any employee for personal use in calendar year 2001. See Rev. Proc. 97-20, for the maximum fair market value figure for automobiles first made available in calendar year 1997; Rev. Proc. 98-30, for the maximum fair market value figure for automobiles first made available in calendar year 1998; Rev. Proc. 99-14, for the maximum fair market value figure for automobiles first made available in calendar year 1999; and Rev. Proc. 2000-18, for the maximum fair market value figure for automobiles first made available in calendar year 2000.

SECTION 4. APPLICATION

01. A taxpayer placing an automobile in service for the first time during calendar year 2001 is limited to the depreciation deduction shown in Table 1 of section 4.02(2) of this revenue procedure or, in the case of an electric automobile, Table 2 of this revenue procedure. A taxpayer first leasing an automobile in calendar year 2001 must determine the inclusion amount that is added to gross income using Table 3 of section 4.03 of this revenue procedure or, in the case of an electric automobile, Table 4 of this revenue procedure. In addition, the procedures of § 1.280F-7(a) must be followed. An employer providing an automobile for the first time in calendar year 2001 for the personal use of any employee may determine the value of the use of the automobile by using the cents-per-mile valuation rule in § 1.61-21(e) if the fair market value of the automobile does not exceed the amount specified in section 4.04(2) of this revenue procedure. If the fair market value of the automobile exceeds the amount specified in section 4.04(2) of this revenue procedure, the employer may determine the

value of the use of the automobile under the general valuation rules of § 1.61-21(b) or under the special valuation rules of § 1.61-21(d) (Automobile lease valuation) or § 1.61-21(f) (Commuting valuation) if the applicable requirements are met.

02. *Limitations on Depreciation Deductions for Certain Automobiles.*

(1) *Amount of the Inflation Adjustment.* Under § 280F(d)(7)(B)(i), the automobile price inflation adjustment for any calendar year is the percentage (if any) by which the CPI automobile component for October of the preceding calendar year exceeds the CPI automobile component for October 1987. The term "CPI automobile component" is defined in § 280F(d)(7)(B)(ii) as the "automobile component" of the Consumer Price Index for all Urban Consumers published by the Department of Labor (the CPI). The new car component of the CPI was 115.2 for October 1987 and 138.6 for October 2000. The October 2000 index exceeded the October 1987 index by 23.4. The Internal Revenue Service has, therefore, determined that the automobile price inflation adjustment for 2001 is 20.31 percent ($23.4/115.2 \times 100\%$). This adjustment is applicable to all automobiles that are first placed in service in calendar year 2001. The dollar limitations in § 280F(a) must therefore be multiplied by a factor of 0.2031, and the resulting increases, after rounding to the nearest \$100, are added to the 1988 limitations to give the depreciation limitations applicable to passenger automobiles (other than electric automobiles) for calendar year 2001. To determine the dollar limitations applicable to an electric automobile first placed in service during calendar year 2001, the dollar limitations in § 280F(a) are tripled in accordance with § 280F(a)(1)(C) and are then multiplied by a factor of 0.2031; the resulting increases, after rounding to the nearest \$100, are added to the tripled 1988 limitations to give the depreciation limitations for calendar year 2001.

(2) *Amount of the Limitation.* For automobiles (other than electric automobiles) placed in service in calendar year 2001, Table 1 of this revenue procedure contains the dollar amount of the depreciation limitations for each tax year. For electric automobiles placed in service in calendar year 2001, Table 2 of this revenue procedure contains these amounts.

REV. PROC. 2001-19 TABLE 1	
DEPRECIATION LIMITATIONS FOR AUTOMOBILES (OTHER THAN ELECTRIC AUTOMOBILES) FIRST PLACED IN SERVICE IN CALENDAR YEAR 2001	
<i>Tax Year</i>	<i>Amount</i>
1st Tax Year	\$3,060
2nd Tax Year	\$4,900
3rd Tax Year	\$2,950
Each Succeeding Year	\$1,775

REV. PROC. 2001-19 TABLE 2	
DEPRECIATION LIMITATIONS FOR ELECTRIC AUTOMOBILES FIRST PLACED IN SERVICE IN CALENDAR YEAR 2001	
<i>Tax Year</i>	<i>Amount</i>
1st Tax Year	\$9,280
2nd Tax Year	\$14,800
3rd Tax Year	\$8,850
Each Succeeding Year	\$5,325

03. *Inclusions in Income of Lessees of Automobiles.*

The inclusion amounts for automobiles first leased in calendar year 2001 are cal-

culated under the procedures described in § 1.280F-7(a). Lessees of automobiles other than electric automobiles should use Table 3 of this revenue procedure in

applying these procedures, while lessees of electric automobiles should use Table 4 of this revenue procedure.

REV. PROC. 2001-19 TABLE 3						
DOLLAR AMOUNTS FOR AUTOMOBILES (OTHER THAN ELECTRIC AUTOMOBILES) WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2001						
Fair Market Value of Automobile		Tax Year During Lease				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
15,500	15,800	3	6	9	10	11
15,800	16,100	5	12	16	20	22
16,100	16,400	8	17	24	30	33
16,400	16,700	10	22	33	39	44
16,700	17,000	13	27	41	48	56
17,000	17,500	16	35	51	61	70
17,500	18,000	20	44	64	77	89
18,000	18,500	24	53	78	92	107
18,500	19,000	28	62	91	109	125
19,000	19,500	32	71	104	125	143
19,500	20,000	36	80	117	141	162
20,000	20,500	40	89	131	156	181
20,500	21,000	45	97	144	173	199
21,000	21,500	49	106	158	188	217
21,500	22,000	53	115	171	204	236
22,000	23,000	59	129	190	229	263
23,000	24,000	67	147	217	260	300
24,000	25,000	75	165	243	292	337
25,000	26,000	83	183	270	324	373

REV. PROC. 2001-19 TABLE 3—Continued

DOLLAR AMOUNTS FOR AUTOMOBILES (OTHER THAN ELECTRIC AUTOMOBILES)
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2001

Fair Market Value of Automobile		Tax Year During Lease				
		1st	2nd	3rd	4th	5th and Later
Over	Not Over					
26,000	27,000	91	201	296	356	410
27,000	28,000	100	218	324	387	447
28,000	29,000	108	236	350	419	484
29,000	30,000	116	254	377	451	520
30,000	31,000	124	272	403	483	557
31,000	32,000	132	290	430	515	594
32,000	33,000	140	308	456	547	631
33,000	34,000	149	326	482	579	667
34,000	35,000	157	343	510	610	705
35,000	36,000	165	361	536	643	741
36,000	37,000	173	379	563	674	778
37,000	38,000	181	397	590	705	815
38,000	39,000	189	415	616	738	851
39,000	40,000	198	433	642	770	888
40,000	41,000	206	451	669	801	925
41,000	42,000	214	469	695	833	962
42,000	43,000	222	487	722	865	998
43,000	44,000	230	505	748	897	1,036
44,000	45,000	238	523	775	929	1,072
45,000	46,000	247	540	802	961	1,108
46,000	47,000	255	558	828	993	1,145
47,000	48,000	263	576	855	1,024	1,183
48,000	49,000	271	594	881	1,057	1,219
49,000	50,000	279	612	908	1,088	1,256
50,000	51,000	287	630	935	1,119	1,293
51,000	52,000	296	648	961	1,151	1,330
52,000	53,000	304	666	987	1,184	1,366
53,000	54,000	312	684	1,014	1,215	1,403
54,000	55,000	320	702	1,040	1,248	1,439
55,000	56,000	328	720	1,067	1,279	1,476
56,000	57,000	336	738	1,093	1,311	1,514
57,000	58,000	345	755	1,120	1,343	1,550
58,000	59,000	353	773	1,147	1,375	1,586
59,000	60,000	361	791	1,173	1,407	1,624
60,000	62,000	373	818	1,213	1,455	1,678
62,000	64,000	390	854	1,266	1,518	1,752
64,000	66,000	406	890	1,319	1,582	1,825
66,000	68,000	422	926	1,372	1,645	1,900
68,000	70,000	439	961	1,426	1,709	1,972
70,000	72,000	455	997	1,479	1,772	2,047
72,000	74,000	471	1,033	1,532	1,836	2,120
74,000	76,000	488	1,068	1,585	1,901	2,193
76,000	78,000	504	1,104	1,638	1,964	2,267
78,000	80,000	520	1,140	1,692	2,027	2,341
80,000	85,000	549	1,203	1,784	2,139	2,469
85,000	90,000	590	1,292	1,917	2,298	2,653
90,000	95,000	631	1,382	2,049	2,458	2,837
95,000	100,000	671	1,472	2,182	2,617	3,020
100,000	110,000	733	1,605	2,382	2,856	3,296

REV. PROC. 2001-19 TABLE 3—Continued

DOLLAR AMOUNTS FOR AUTOMOBILES (OTHER THAN ELECTRIC AUTOMOBILES)
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2001

Fair Market Value of Automobile		Tax Year During Lease				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
110,000	120,000	814	1785	2,647	3,174	3,664
120,000	130,000	896	1,964	2,913	3,492	4,032
130,000	140,000	978	2,142	3,179	3,811	4,399
140,000	150,000	1,059	2,322	3,444	4,129	4,767
150,000	160,000	1,141	2,501	3,709	4,448	5,135
160,000	170,000	1,223	2,680	3,975	4,766	5,502
170,000	180,000	1,304	2,859	4,241	5,084	5,871
180,000	190,000	1,386	3,038	4,506	5,403	6,238
190,000	200,000	1,468	3,217	4,772	5,721	6,606
200,000	210,000	1,549	3,396	5,038	6,040	6,973
210,000	220,000	1,631	3,575	5,303	6,358	7,341
220,000	230,000	1,713	3,754	5,568	6,677	7,709
230,000	240,000	1,794	3,933	5,834	6,996	8,076
240,000	250,000	1,876	4,112	6,100	7,314	8,443

REV. PROC. 2001-19 TABLE 4

DOLLAR AMOUNTS FOR ELECTRIC AUTOMOBILES
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2001

Fair Market Value of Automobile		Tax Year During Lease				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
\$ 47,000	48,000	9	21	33	40	46
48,000	49,000	17	39	60	71	83
49,000	50,000	25	57	86	104	119
50,000	51,000	33	75	113	135	157
51,000	52,000	42	93	139	167	193
52,000	53,000	50	111	165	199	230
53,000	54,000	58	129	192	231	266
54,000	55,000	66	147	218	263	304
55,000	56,000	74	165	245	295	340
56,000	57,000	82	183	272	326	377
57,000	58,000	91	200	299	358	414
58,000	59,000	99	218	325	390	451
59,000	60,000	107	236	352	422	487
60,000	62,000	119	263	391	470	543
62,000	64,000	136	298	445	533	616
64,000	66,000	152	334	498	597	690
66,000	68,000	168	370	551	661	763
68,000	70,000	185	406	604	724	837
70,000	72,000	201	442	657	788	910
72,000	74,000	217	478	710	852	984
74,000	76,000	234	513	764	915	1057
76,000	78,000	250	549	817	979	1131
78,000	80,000	266	585	870	1,043	1,204

REV. PROC. 2001-19 TABLE 4—Continued

DOLLAR AMOUNTS FOR ELECTRIC AUTOMOBILES
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2001

Fair Market Value of Automobile		Tax Year During Lease				
		1st	2nd	3rd	4th	5th and Later
Over	Not Over					
80,000	85,000	295	648	962	1,155	1,332
85,000	90,000	336	737	1,095	1,314	1,517
90,000	95,000	377	826	1,229	1,472	1,701
95,000	100,000	417	916	1,361	1,632	1,885
100,000	110,000	479	1,050	1,560	1,871	2,161
110,000	120,000	560	1,230	1,825	2,190	2,528
120,000	130,000	642	1,408	2,092	2,508	2,895
130,000	140,000	724	1,587	2,357	2,826	3,264
140,000	150,000	805	1,767	2,622	3,145	3,631
150,000	160,000	887	1,946	2,888	3,463	3,998
160,000	170,000	969	2,124	3,154	3,782	4,366
170,000	180,000	1,050	2,304	3,419	4,100	4,374
180,000	190,000	1,132	2,483	3,684	4,419	5,102
190,000	200,000	1,214	2,661	3,951	4,737	5,469
200,000	210,000	1,295	2,841	4,216	5,055	5,837
210,000	220,000	1,377	3,020	4,481	5,374	6,205
220,000	230,000	1,459	3,199	4,747	5,692	6,572
230,000	240,000	1,540	3,378	5,013	6,010	6,940
240,000	250,000	1,622	3,557	5,278	6,329	7,308

04. *Maximum Automobile Value for Using the Cents-per-mile Valuation Rule.*

(1) *Amount of Adjustment.* Under § 1.61-21(e)(1)(iii)(A), the limitation on the fair market value of an employer-provided automobile first made available to any employee for personal use after 1988 is to be adjusted in accordance with § 280F(d)(7). Accordingly, the adjustment for any calendar year is the percentage (if any) by which the CPI automobile component for October of the preceding calendar year exceeds the CPI automobile component for October 1987. *See*, section 4.02(1) of this revenue procedure. The new car component of the CPI was 115.2 for October 1987 and 138.6 for October 2000. The October 2000 index exceeded the October 1987 index by 23.4. The Internal Revenue Service has, therefore, determined that the adjustment for 2001 is 20.31 percent ($23.4/115.2 \times 100\%$). This adjustment is applicable to all employer-provided auto-

mobiles first made available to any employee for personal use in calendar year 2001. The maximum fair market value specified in § 1.61-21(e)(1)(iii)(A) must therefore be multiplied by a factor of 0.2031, and the resulting increase, after rounding to the nearest \$100, is added to \$12,800 to give the maximum value for calendar year 2001.

(2) *The Maximum Automobile Value.* For automobiles first made available in calendar year 2001 to any employee of the employer for personal use, the vehicle cents-per-mile valuation rule may be applicable if the fair market value of the automobile on the date it is first made available does not exceed \$15,400.

SECTION 5. EFFECTIVE DATE

This revenue procedure applies to automobiles (other than leased automobiles) that are first placed in service during calendar year 2001, to leased automobiles

that are first leased during calendar year 2001, and to employer-provided automobiles first made available to employees for personal use in calendar year 2001.

DRAFTING INFORMATION

The principal author of this revenue procedure is Bernard P. Harvey of the Office of the Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding the depreciation limitations and lessee inclusion amounts in this revenue procedure, contact Mr. Harvey at (202) 622-3110; for further information regarding the maximum automobile value for applying the vehicle cents-per-mile valuation rule, contact Ms. Lynne Camillo of the Office of the Associate Chief Counsel (Tax Exempt and Government Entities) at (202) 622-6040 (not toll-free calls).

26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability.
(Also Part I, § 61, 280F; 1.61-21, 1.280F-7.)

Rev. Proc. 2002-14

SECTION 1. PURPOSE

This revenue procedure provides: (1) limitations on depreciation deductions for owners of passenger automobiles first placed in service during calendar year 2002, including separate limitations on passenger automobiles designed to be propelled primarily by electricity and built by an original equipment manufacturer (electric automobiles); (2) the amounts to be included in income by lessees of passenger automobiles first leased during calendar year 2002, including separate inclusion amounts for electric automobiles; and (3) the maximum allowable value of employer-provided automobiles first made available to employees for personal use in calendar year 2002 for which the vehicle cents-per-mile valuation rule provided under § 1.61-21(e) of the Income Tax Regulations may be applicable. The tables detailing these

depreciation limitations and lessee inclusion amounts reflect the automobile price inflation adjustments required by § 280F(d)(7) of the Internal Revenue Code. The maximum allowable automobile value for applying the vehicle cents-per-mile valuation rule reflects the automobile price inflation adjustment of § 280F(d)(7) as required by § 1.61-21(e)(1)(iii)(A).

SECTION 2. BACKGROUND

For owners of automobiles, § 280F(a) imposes dollar limitations on the depreciation deduction for the year that the automobile is placed in service and each succeeding year. In the case of electric automobiles placed in service after August 5, 1997, and before January 1, 2005, § 280F(a)(1)(C) requires tripling of these limitation amounts. Section 280F(d)(7) requires the amounts allowable as depreciation deductions to be increased by a price inflation adjustment amount for passenger automobiles placed in service after 1988.

For leased automobiles, § 280F(c) requires a reduction in the deduction allowed to the lessee of the automobile. The reduction must be substantially equivalent to the limitations on the depreciation deductions imposed on owners of automobiles. Under § 1.280F-7(a), this reduction requires the lessees to include in gross income an inclusion amount determined by applying a formula to the amount obtained from a table. There is a table for lessees of electric automobiles

and a table for all other passenger automobiles. Each table shows inclusion amounts for a range of fair market values for each tax year after the automobile is first leased.

For automobiles first provided by employers to employees that meet the requirements of § 1.61-21(e)(1), the value to the employee of the use of the automobile may be determined under the vehicle cents-per-mile valuation rule of § 1.61-21(e). Section 1.61-21(e)(1)(iii)(A) provides that for an automobile first made available after 1988 to any employee of the employer for personal use, the value of the use of the automobile may not be determined under the vehicle cents-per-mile valuation rule for a calendar year if the fair market value of the automobile (determined pursuant to § 1.61-21(d)(5)(i) through (iv)) on the first date the automobile is made available to the employee exceeds \$12,800 as adjusted by § 280F(d)(7).

SECTION 3. SCOPE AND OBJECTIVE

01. The limitations on depreciation deductions in section 4.02 of this revenue procedure apply to automobiles (other than leased automobiles) that are placed in service in calendar year 2002 and continue to apply for each tax year that the automobile remains in service.

02. The tables in section 4.03 of this revenue procedure apply to leased automobiles for which the lease term begins in calendar year 2002. Lessees of such automobiles must use these tables to

determine the inclusion amount for each tax year during which the automobile is leased.

03. See Rev. Proc. 96-25 (1996-1 C.B. 681) for information on determining inclusion amounts for automobiles first leased before January 1, 1997; Rev. Proc. 97-20 (1997-1 C.B. 647) for automobiles first leased during calendar year 1997, including electric automobiles first leased on or after January 1, 1997, and before August 6, 1997; Rev. Proc. 98-24 (1998-1 C.B. 663) for electric automobiles first leased after August 5, 1997, and before January 1, 1998; Rev. Proc. 98-30 (1998-1 C.B. 930) for all automobiles first leased in calendar year 1998; Rev. Proc. 99-14 (1999-1 C.B. 413) for all automobiles first leased in calendar year 1999; Rev. Proc. 2000-18 (2000-9 I.R.B. 722) for all automobiles first leased in calendar year 2000, and Rev. Proc. 2001-19 (2001-9 I.R.B. 732) for all automobiles first leased in calendar year 2001.

04. The maximum fair market value figure in section 4.04(2) of this revenue procedure applies to employer-provided automobiles first made available to any employee for personal use in calendar year 2002. See Rev. Proc. 97-20, for the maximum fair market value figure for automobiles first made available in calendar year 1997; Rev. Proc. 98-30, for the maximum fair market value figure for automobiles first made available in calendar year 1998; Rev. Proc. 99-14, for the maximum fair market value figure for automobiles first made available in calendar year 1999; Rev. Proc. 2000-18, for the maximum fair market value figure for automobiles first made available in calendar year 2000; and Rev. Proc. 2001-19, for the maximum fair market value figure for automobiles first made available in calendar year 2001.

SECTION 4. APPLICATION

01. A taxpayer placing an automobile in service for the first time during calendar year 2002 is limited to the depreciation deduction shown in Table 1 of section 4.02(2) of this revenue procedure or, in the case of an electric automobile, Table 2 of this revenue procedure. A taxpayer first leasing an automobile in calendar year 2002 must determine the inclusion amount that is added to gross income using Table 3 of section 4.03 of this revenue procedure or, in the case of an electric automobile, Table 4 of this revenue procedure. In addition, the procedures of § 1.280F-7(a) must be followed. An employer providing an automobile for the first time in calendar year 2002 for the personal use of any employee may determine the value of the use of the automobile by using the cents-per-mile valuation rule in § 1.61-21(e) if the fair market value of the automobile does not exceed the amount specified in section 4.04(2) of this revenue procedure. If the fair market value of the automobile exceeds the amount specified in section 4.04(2) of this revenue procedure, the employer may determine the value of the use of the automobile under the general valuation rules of § 1.61-21(b) or under the special valuation rules of § 1.61-21(d) (Automobile lease valuation) or § 1.61-21(f) (Commuting valuation) if the applicable requirements are met.

02. *Limitations on Depreciation Deductions for Certain Automobiles.*

(1) *Amount of the Inflation Adjustment.* Under § 280F(d)(7)(B)(i), the automobile price inflation adjustment for any calendar year is the percentage (if any) by which the CPI automobile component for October of the preceding calendar year exceeds the CPI automobile component for October 1987. The term "CPI automo-

bile component" is defined in § 280F(d)(7)(B)(ii) as the "automobile component" of the Consumer Price Index for all Urban Consumers published by the Department of Labor (the CPI). The new car component of the CPI was 115.2 for October 1987 and 137.7 for October 2001. The October 2001 index exceeded the October 1987 index by 22.5. The Internal Revenue Service has, therefore, determined that the automobile price inflation adjustment for 2002 is 19.53125 percent ($22.5/115.2 \times 100\%$). This adjustment is applicable to all automobiles that are first placed in service in calendar year 2002. The dollar limitations in § 280F(a) must therefore be multiplied by a factor of 0.1953125, and the resulting increases, after rounding to the nearest \$100, are added to the 1988 limitations to give the depreciation limitations applicable to passenger automobiles (other than electric automobiles) for calendar year 2002. To determine the dollar limitations applicable to an electric automobile first placed in service during calendar year 2002, the dollar limitations in § 280F(a) are tripled in accordance with § 280F(a)(1)(C) and are then multiplied by a factor of 0.1953125; the resulting increases, after rounding to the nearest \$100, are added to the tripled 1988 limitations to give the depreciation limitations for calendar year 2002.

(2) *Amount of the Limitation.* For automobiles (other than electric automobiles) placed in service in calendar year 2002, Table 1 of this revenue procedure contains the dollar amount of the depreciation limitations for each tax year. For electric automobiles placed in service in calendar year 2002, Table 2 of this revenue procedure contains these amounts.

REV. PROC. 2002-14 TABLE 1
DEPRECIATION LIMITATIONS FOR AUTOMOBILES
(OTHER THAN ELECTRIC AUTOMOBILES)
FIRST PLACED IN SERVICE IN CALENDAR YEAR 2002

<i>Tax Year</i>	<i>Amount</i>
1st Tax Year	\$3,060
2nd Tax Year	\$4,900
3rd Tax Year	\$2,950
Each Succeeding Year	\$1,775

REV. PROC. 2002-14 TABLE 2
DEPRECIATION LIMITATIONS FOR ELECTRIC AUTOMOBILES
FIRST PLACED IN SERVICE IN CALENDAR YEAR 2002

<i>Tax Year</i>	<i>Amount</i>
1st Tax Year	\$ 9,180
2nd Tax Year	\$14,700
3rd Tax Year	\$ 8,750
Each Succeeding Year	\$ 5,325

03. *Inclusions in Income of Lessees of Automobiles.*

The inclusion amounts for automobiles first leased in calendar year 2002 are calculated under the procedures described in § 1.280F-7(a). Lessees of automobiles other than electric automobiles should use Table 3 of this revenue procedure in applying these procedures, while lessees of electric automobiles should use Table 4 of this revenue procedure.

REV. PROC. 2002-14 TABLE 3
DOLLAR AMOUNTS FOR AUTOMOBILES (OTHER THAN
ELECTRIC AUTOMOBILES)
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2002

Fair Market Value of Automobile		Tax Year During Lease				
		1st	2nd	3rd	4th	5th and Later
Over	Not Over					
\$15,500	15,800	2	3	5	6	6
15,800	16,100	3	7	9	11	13
16,100	16,400	4	10	14	17	19
16,400	16,700	6	13	18	22	26
16,700	17,000	7	16	23	28	31
17,000	17,500	9	20	29	35	40
17,500	18,000	11	25	37	44	50
18,000	18,500	14	30	44	53	61
18,500	19,000	16	35	52	62	72
19,000	19,500	18	40	60	71	82

REV. PROC. 2002-14 TABLE 3—CONTINUED						
DOLLAR AMOUNTS FOR AUTOMOBILES (OTHER THAN ELECTRIC AUTOMOBILES)						
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2002						
Fair Market Value of Automobile		Tax Year During Lease				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
19,500	20,000	21	45	67	80	93
20,000	20,500	23	50	75	89	103
20,500	21,000	25	56	82	98	114
21,000	21,500	28	60	90	108	123
21,500	22,000	30	66	97	117	134
22,000	23,000	33	74	108	130	150
23,000	24,000	38	84	123	149	171
24,000	25,000	43	94	139	166	192
25,000	26,000	47	104	154	185	213
26,000	27,000	52	114	169	203	234
27,000	28,000	57	124	185	220	255
28,000	29,000	61	135	199	239	276
29,000	30,000	66	145	214	258	296
30,000	31,000	71	155	230	275	318
31,000	32,000	75	165	245	294	338
32,000	33,000	80	175	260	312	360
33,000	34,000	85	185	276	329	381
34,000	35,000	89	196	290	348	402
35,000	36,000	94	206	305	367	422
36,000	37,000	99	216	321	384	443
37,000	38,000	103	226	336	403	464
38,000	39,000	108	236	351	421	485
39,000	40,000	112	247	366	439	506
40,000	41,000	117	257	381	457	527
41,000	42,000	122	267	396	475	549
42,000	43,000	126	278	411	493	570
43,000	44,000	131	288	426	512	590
44,000	45,000	136	298	441	530	611
45,000	46,000	140	308	457	548	632
46,000	47,000	145	318	472	566	653
47,000	48,000	150	328	487	584	674
48,000	49,000	154	339	502	602	695
49,000	50,000	159	349	517	620	717
50,000	51,000	164	359	532	639	737
51,000	52,000	168	369	548	657	758
52,000	53,000	173	379	563	675	779
53,000	54,000	177	390	578	693	800
54,000	55,000	182	400	593	711	821

REV. PROC. 2002-14 TABLE 3—CONTINUED
DOLLAR AMOUNTS FOR AUTOMOBILES (OTHER THAN
ELECTRIC AUTOMOBILES)
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2002

Fair Market Value of Automobile		Tax Year During Lease				
Over	Not Over	1st	2nd	3rd	4th	5th and Later
55,000	56,000	187	410	608	729	842
56,000	57,000	191	420	624	747	863
57,000	58,000	196	430	639	766	883
58,000	59,000	201	440	654	784	905
59,000	60,000	205	451	669	802	925
60,000	62,000	212	466	692	829	957
62,000	64,000	222	486	722	866	999
64,000	66,000	231	507	752	902	1,041
66,000	68,000	240	527	783	938	1,083
68,000	70,000	250	547	813	974	1,125
70,000	72,000	259	568	843	1,011	1,166
72,000	74,000	268	589	873	1,047	1,208
74,000	76,000	277	609	904	1,083	1,250
76,000	78,000	287	629	934	1,120	1,292
78,000	80,000	296	650	964	1,156	1,334
80,000	85,000	312	686	1,017	1,219	1,408
85,000	90,000	335	737	1,092	1,311	1,512
90,000	95,000	359	787	1,169	1,401	1,617
95,000	100,000	382	838	1,245	1,491	1,722
100,000	110,000	417	915	1,358	1,627	1,880
110,000	120,000	463	1,017	1,509	1,810	2,089
120,000	130,000	510	1,119	1,660	1,991	2,299
130,000	140,000	556	1,221	1,812	2,172	2,509
140,000	150,000	603	1,323	1,963	2,354	2,718
150,000	160,000	649	1,425	2,115	2,535	2,928
160,000	170,000	696	1,527	2,266	2,717	3,137
170,000	180,000	742	1,629	2,418	2,898	3,347
180,000	190,000	789	1,731	2,569	3,080	3,556
190,000	200,000	835	1,833	2,720	3,262	3,766
200,000	210,000	881	1,935	2,872	3,443	3,976
210,000	220,000	928	2,037	3,023	3,625	4,185
220,000	230,000	974	2,139	3,175	3,806	4,395
230,000	240,000	1,021	2,241	3,326	3,988	4,604
240,000	250,000	1,067	2,343	3,478	4,169	4,814

REV. PROC. 2002-14 TABLE 4
DOLLAR AMOUNTS FOR ELECTRIC AUTOMOBILES
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2002

Fair Market Value of Automobile		Tax Year During Lease				
		1st	2nd	3rd	4th	5th and Later
Over	Not Over					
\$46,000	47,000	3	6	10	11	12
47,000	48,000	7	16	26	29	33
48,000	49,000	12	26	41	47	54
49,000	50,000	17	36	56	66	74
50,000	51,000	21	47	71	83	96
51,000	52,000	26	57	86	102	117
52,000	53,000	31	67	101	120	138
53,000	54,000	35	77	117	138	159
54,000	55,000	40	87	132	156	180
55,000	56,000	45	98	146	174	201
56,000	57,000	49	108	161	193	222
57,000	58,000	54	118	177	211	242
58,000	59,000	59	128	192	229	264
59,000	60,000	63	139	206	248	284
60,000	62,000	70	154	229	275	316
62,000	64,000	79	174	260	311	358
64,000	66,000	89	195	290	347	400
66,000	68,000	98	215	320	384	442
68,000	70,000	107	236	350	420	484
70,000	72,000	117	256	381	456	525
72,000	74,000	126	276	411	493	567
74,000	76,000	135	297	441	529	609
76,000	78,000	145	317	472	564	652
78,000	80,000	154	337	502	602	693
80,000	85,000	170	373	555	665	767
85,000	90,000	193	424	631	756	871
90,000	95,000	217	475	706	847	976
95,000	100,000	240	526	782	937	1,081
100,000	110,000	275	602	896	1,073	1,239
110,000	120,000	321	705	1,047	1,255	1,448
120,000	130,000	368	806	1,199	1,436	1,658
130,000	140,000	414	909	1,350	1,617	1,868
140,000	150,000	460	1,011	1,501	1,800	2,076
150,000	160,000	507	1,113	1,652	1,981	2,287
160,000	170,000	553	1,215	1,804	2,163	2,496
170,000	180,000	600	1,317	1,955	2,344	2,706
180,000	190,000	646	1,419	2,107	2,525	2,916

REV. PROC. 2002-14 TABLE 4—CONTINUED						
DOLLAR AMOUNTS FOR ELECTRIC AUTOMOBILES WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2002						
Fair Market Value of Automobile		Tax Year During Lease				
		1st	2nd	3rd	4th	5th and Later
Over	Not Over					
190,000	200,000	693	1,521	2,258	2,707	3,125
200,000	210,000	739	1,623	2,410	2,888	3,335
210,000	220,000	786	1,725	2,561	3,070	3,544
220,000	230,000	832	1,827	2,712	3,252	3,754
230,000	240,000	879	1,929	2,863	3,434	3,963
240,000	250,000	925	2,031	3,015	3,615	4,173

04. *Maximum Automobile Value for Using the Cents-per-mile Valuation Rule.*

(1) *Amount of Adjustment.* Under § 1.61-21(e)(1)(iii)(A), the limitation on the fair market value of an employer-provided automobile first made available to any employee for personal use after 1988 is to be adjusted in accordance with § 280F(d)(7). Accordingly, the adjustment for any calendar year is the percentage (if any) by which the CPI automobile component for October of the preceding calendar year exceeds the CPI automobile component for October 1987. *See*, section 4.02(1) of this revenue procedure. The new car component of the CPI was 115.2 for October 1987 and 137.7 for October 2000. The October 2000 index exceeded the October 1987 index by 22.5. The Internal Revenue Service has, therefore, determined that the adjustment for 2002 is 19.53125 percent (22.5/115.2 x 100%). This adjustment is applicable to all

employer-provided automobiles first made available to any employee for personal use in calendar year 2002. The maximum fair market value specified in § 1.61-21(e)(1)(iii)(A) must therefore be multiplied by a factor of 0.1953125, and the resulting increase, after rounding to the nearest \$100, is added to \$12,800 to give the maximum value for calendar year 2002.

(2) *The Maximum Automobile Value.* For automobiles first made available in calendar year 2002 to any employee of the employer for personal use, the vehicle cents-per-mile valuation rule may be applicable if the fair market value of the automobile on the date it is first made available does not exceed \$15,300.

SECTION 5. EFFECTIVE DATE

This revenue procedure applies to automobiles (other than leased automobiles) that are first placed in service dur-

ing calendar year 2002, to leased automobiles that are first leased during calendar year 2002, and to employer-provided automobiles first made available to employees for personal use in calendar year 2002.

DRAFTING INFORMATION

The principal author of this revenue procedure is Bernard P. Harvey of the Office of the Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding the depreciation limitations and lessee inclusion amounts in this revenue procedure, contact Mr. Harvey at (202) 622-3110; for further information regarding the maximum automobile value for applying the vehicle cents-per-mile valuation rule, contact Dan E. Boeskin of the Office of the Associate Chief Counsel (Tax Exempt and Government Entities) at (202) 622-6040 (not toll-free calls).

Revenue Procedures

Rev. Proc. 2003-75, 2003-45 IRB 1018, 10/02/2003, IRC Sec(s). 280F

Rev. Proc. 2003-75, 2003-45 IRB 1018, 10/02/2003, IRC Sec(s). 280F

Limitation on depreciation for auto owners and lessees.

Headnote:

IRS provided owners and lessees of passenger automobiles (including electric automobiles) with tables detailing limitations on depreciation deductions for automobiles first placed in service during calendar year 2003 and amounts to be included in income for automobiles first leased during calendar year 2003. Also, it provides maximum allowable value of employer-provided automobiles first made available to employees for personal use in calendar year 2003 for which vehicle cents-per-mile valuation rule provided under Reg. §1.61-21(e) may be applicable. Tables were also provided to reflect additional first-year depreciation deduction added by 2002 legislation, as amended in 2003, as Code Sec. 168(k); . *Rev Proc 2002-14*, 2002-1 CB 450, and *Rev Proc 2001-19*, 2001-1 CB 732, are amplified.

Reference(s): ¶ 280F5.01(5); Code Sec. 280F;

Full Text:

1. Purpose

01. This revenue procedure provides: (1) limitations on depreciation deductions for owners of passenger automobiles first placed in service by the taxpayer during calendar year 2003, including special tables of limitations on depreciation deductions for trucks and vans, and for passenger automobiles designed to be propelled primarily by electricity and built by an original equipment manufacturer (electric automobiles); (2) the amounts to be included in income by lessees of passenger automobiles first leased by the taxpayer during calendar year 2003, including a separate table of inclusion amounts for lessees of trucks and vans, and a separate table for lessees of electric automobiles; and (3) the maximum allowable value of employer-provided passenger automobiles first made available to employees for personal use in calendar year 2003 for which the vehicle cents-per-mile valuation rule provided under § 1.61-21(e) of the Income Tax Regulations may be applicable.

02. This revenue procedure also provides: (1) tables of dollar limitations on depreciation deductions for owners of passenger automobiles to which the additional 30 percent first-year allowance for depreciation available under § 168(k)(1)(A) applies, including special tables of limitations on depreciation deductions for qualifying trucks and vans and for qualifying electric automobiles; (2) tables of dollar limitations on depreciation deductions

for owners of passenger automobiles to which the additional 50 percent first-year allowance for depreciation available under § 168(k)(4) applies, including special tables of limitations on depreciation deductions for qualifying trucks and vans and for qualifying electric automobiles; and (3) revised tables of dollar limitations for passenger automobiles and electric automobiles that were placed in service by the taxpayer during 2001 and 2002 and to which the additional 30 percent first-year allowance for depreciation available under § 168(k)(1)(A) applies. For purposes of these tables, the additional 30 percent or 50 percent first-year allowance does not apply if the taxpayer has elected under § 168(k)(2)(C)(iii) not to take the additional allowance. Similarly, the additional 50 percent first-year allowance does not apply if the taxpayer has elected under § 168(k)(4)(E) to take the additional 30 percent allowance instead of the additional 50 percent allowance.

03. The tables detailing these depreciation limitations and lessee inclusion amounts reflect the automobile price inflation adjustments required by § 280F(d)(7). The maximum allowable passenger automobile value for applying the vehicle cents-per-mile valuation rule reflects the automobile price inflation adjustment of § 280F(d)(7) of the Internal Revenue Code, as required by § 1.61-21(e)(1)(iii)(A).

2. Background

01. For owners of passenger automobiles, § 280F(a) imposes dollar limitations on the depreciation deduction for the year that the passenger automobile is placed in service by the taxpayer and each succeeding year. In the case of electric automobiles placed in service after August 5, 1997, and before January 1, 2005, § 280F(a)(1)(C) requires tripling of these limitation amounts. Section 280F(d)(7) requires the amounts allowable as depreciation deductions to be increased by a price inflation adjustment amount for passenger automobiles placed in service after 1988. The method of calculating this price inflation amount for trucks and vans placed in service in or after calendar year 2003 uses a different CPI “automobile component” (the “new trucks” component) than that used in the price inflation amount calculation for other passenger automobiles (the “new cars” component), resulting in somewhat higher depreciation deductions for trucks and vans. This change reflects the higher rate of price inflation that trucks and vans have been subject to since 1988. For purposes of this revenue procedure, the term “trucks and vans” refers to passenger automobiles that are built on a truck chassis, including minivans and sport utility vehicles (SUVs) that are built on a truck chassis.

02. Section 101 of the Job Creation and Worker Assistance Act of 2002, Pub. L. No. 107-147, 116 Stat. 21 (March 9, 2002) added § 168(k) to the Code. Generally, § 168(k)(1)(A) provides an additional 30 percent first-year depreciation deduction for new property acquired by the taxpayer after September 10, 2001, and before September 11, 2004 (subsequently extended to January 1, 2005), so long as no written binding contract for the acquisition of the property existed prior to September 11, 2001. In the case of a passenger automobile to which the 30 percent additional allowance applies (other than a § 168(k)(4) passenger automobile described in section 2.03 of this revenue procedure, or a passenger automobile for which a taxpayer has made an election under § 168(k)(2)(C)(iii)), §

168(k)(2)(E) increases the first-year depreciation allowed under § 280F(a)(1)(A) by \$4,600. For purposes of this revenue procedure, a passenger automobile to which the additional 30 percent first-year allowance under § 168(k)(1)(A) applies (other than a § 168(k)(4) passenger automobile described in section 2.03 of this revenue procedure, or a passenger automobile for which a taxpayer has made an election under § 168(k)(2)(C)(iii)) is referred to as a " § 168(k)(1) passenger automobile".

03. Section 201 of the Jobs and Growth Tax Relief Reconciliation Act of 2003, Pub. L. No. 108-27, 117 Stat. 752 (May 28, 2003) added § 168(k)(4) to the Code. Section 168(k)(4)(A)(i) provides that § 168(k)(1) is applied by substituting "50 percent" for "30 percent" for new property acquired by the taxpayer after May 5, 2003, and before January 1, 2005, so long as no written binding contract for the acquisition of the property existed prior to May 6, 2003. In the case of a passenger automobile to which the 50 percent additional allowance applies (or would apply but for an election under § 168(k)(4)(E)) and for which no election has been made under § 168(k)(2)(C)(iii), § 168(k)(4)(D) increases the first-year depreciation allowed under § 280F(a)(1)(A) by \$7,650. For purposes of this revenue procedure, a passenger automobile to which the additional 50 percent first-year allowance under § 168(k)(4) applies (or would apply but for an election under § 168(k)(4)(E)) and for which no election has been made under § 168(k)(2)(C)(iii) is referred to as a " § 168(k)(4) passenger automobile".

04. For leased passenger automobiles, § 280F(c) requires a reduction in the deduction allowed to the lessee of the passenger automobile. The reduction must be substantially equivalent to the limitations on the depreciation deductions imposed on owners of passenger automobiles.

Under § 1.280F-7(a), this reduction requires the lessees to include in gross income an inclusion amount determined by applying a formula to the amount obtained from a table. There is a table for lessees of electric automobiles, a table for lessees of trucks and vans, and a table for all other passenger automobiles. Each table shows inclusion amounts for a range of fair market values for each tax year after the passenger automobile is first leased. These tables should also be used by lessees of § 168(k)(1) passenger automobiles and § 168(k)(4) passenger automobiles.

05. For passenger automobiles (including trucks, vans, and electric automobiles) first provided by employers to employees that meet the requirements of § 1.61-21(e)(1), the value to the employee of the use of the passenger automobile may be determined under the vehicle cents-per-mile valuation rule of § 1.61-21(e). Section 1.61-21(e)(1)(iii)(A) provides that for a passenger automobile first made available after 1988 to any employee of the employer for personal use, the value of the use of the passenger automobile may not be determined under the vehicle cents-per-mile valuation rule for a calendar year if the fair market value of the passenger automobile (determined pursuant to § 1.61-21(d)(5)(i) through (iv)) on the first date the passenger automobile is made available to the employee exceeds \$12,800 as adjusted by § 280F(d)(7).

3. Scope And Objective

01. The limitations on depreciation deductions in section 4.02(2) of this revenue procedure apply to passenger automobiles (other than leased passenger automobiles) that are placed in service by the taxpayer in calendar year 2003, and continue to apply for each tax year that the passenger automobile remains in service.

02. The tables in section 4.03 of this revenue procedure apply to leased passenger automobiles for which the lease term begins during calendar year 2003. Lessees of such passenger automobiles must use these tables to determine the inclusion amount for each tax year during which the passenger automobile is leased. See Rev. Proc. 2002-14, 2002-1 C.B. 450, for passenger automobiles first leased before January 1, 2003.

03. The maximum fair market value figure in section 4.04(2) of this revenue procedure applies to employer-provided passenger automobiles first made available to any employee for personal use in calendar year 2003. See Rev. Proc. 2002-14 for the maximum fair market value figure for passenger automobiles first made available before January 1, 2003.

04. The revised limitations on depreciation deductions in section 4.05(2) of this revenue procedure apply to § 168(k)(1) passenger automobiles placed in service by the taxpayer during 2001 and 2002. The tables in section 4.05(2) of this revenue procedure amplify both Rev. Proc. 2001-19, 2001-1 C.B. 732, and Rev. Proc 2002-14 by providing tables for § 168(k)(1) passenger automobiles to which those revenue procedures apply.

4. Application

01. In General.

(1) Limitations on Depreciation Deductions for Certain Automobiles. The limitations on depreciation deductions for passenger automobiles placed in service by the taxpayer for the first time during calendar year 2003 are found in Tables 1 through 9 in section 4.02(2) of this revenue procedure. Table 1 of this revenue procedure provides limitations on depreciation deductions for a passenger automobile (other than a truck, van, electric automobile, § 168(k)(1) passenger automobile, or § 168(k)(4) passenger automobile). Table 2 of this revenue procedure provides limitations on depreciation deductions for a § 168(k)(1) passenger automobile (other than a truck, van, or electric automobile). Table 3 of this revenue procedure provides limitations on depreciation deductions for a § 168(k)(4) passenger automobile (other than a truck, van, or electric automobile). Table 4 of this revenue procedure provides limitations on depreciation deductions for a truck or van (other than a § 168(k)(1) passenger automobile or § 168(k)(4) passenger automobile). Table 5 of this revenue procedure provides limitations on depreciation deductions for a truck or van that is a § 168(k)(1) passenger automobile. Table 6 of this revenue procedure provides limitations on depreciation deductions for a truck or van that is a § 168(k)(4) passenger

automobile. Table 7 of this revenue procedure provides limitations on depreciation deductions for an electric automobile (other than a § 168(k)(1) passenger automobile or § 168(k)(4) passenger automobile). Table 8 of this revenue procedure provides limitations on depreciation deductions for an electric automobile that is a § 168(k)(1) passenger automobile. Table 9 of this revenue procedure provides limitations on depreciation deductions for an electric automobile that is a § 168(k)(4) passenger automobile.

(2) Inclusions in Income of Lessees of Passenger Automobiles. A taxpayer first leasing a passenger automobile during calendar year 2003 must determine the inclusion amount that is added to gross income using the tables in section 4.03 of this revenue procedure. The inclusion amount is determined using Table 10 in the case of a passenger automobile (other than a truck, van, or electric automobile), Table 11 in the case of a truck or van, and Table 12 in the case of an electric automobile. In addition, the procedures of § 1.280F-7(a) must be followed.

(3) Maximum Automobile Value for Using the Cents-per-mile Valuation Rule. An employer providing a passenger automobile for the first time in calendar year 2003 for the personal use of any employee may determine the value of the use of the passenger automobile by using the cents-per-mile valuation rule in § 1.61-21(e) if the fair market value of the passenger automobile does not exceed the amount specified in section 4.04(2) of this revenue procedure. If the fair market value of the passenger automobile exceeds the amount specified in section 4.04(2) of this revenue procedure, the employer may determine the value of the use of the passenger automobile under the general valuation rules of § 1.61-21(b) or under the special valuation rules of § 1.61-21(d) (Automobile lease valuation) or § 1.61-21(f) (Commuting valuation) if the applicable requirements are met.

(4) Limitations on Depreciation Deductions for Certain Passenger Automobiles Placed in Service in 2001 or 2002. Depreciation deductions with respect to § 168(k)(1) passenger automobiles placed in service during calendar year 2001 or 2002 are limited to the amounts set forth in Tables 13 through 16 of section 4.05(2) of this revenue procedure.

02. Limitations on Depreciation Deductions for Certain Automobiles.

(1) Amount of the Inflation Adjustment. Under § 280F(d)(7)(B)(i), the automobile price inflation adjustment for any calendar year is the percentage (if any) by which the CPI automobile component for October of the preceding calendar year exceeds the CPI automobile component for October 1987. The term “CPI automobile component” is defined in § 280F(d)(7)(B)(ii) as the “automobile component” of the Consumer Price Index for all Urban Consumers published by the Department of Labor (the CPI). The new car component of the CPI was 115.2 for October 1987 and 136.7 for October 2002. The October 2002 index exceeded the October 1987 index by 21.5. The Service has, therefore, determined that the automobile price inflation adjustment for 2003 for passenger automobiles (other than trucks and vans) is 18.66 percent ($21.5/115.2 \times 100\%$). This adjustment is applicable to all passenger automobiles (other than trucks and vans) that are first placed in service in calendar year 2003. The dollar limitations in § 280F(a) must

therefore be multiplied by a factor of 0.1866, and the resulting increases, after rounding to the nearest \$100, are added to the 1988 limitations to give the depreciation limitations applicable to passenger automobiles (other than trucks, vans, and electric automobiles) for calendar year 2003. To determine the dollar limitations applicable to an electric automobile first placed in service during calendar year 2003, the dollar limitations in § 280F(a) are tripled in accordance with § 280F(a)(1)(C) and are then multiplied by a factor of 0.1866; the resulting increases, after rounding to the nearest \$100, are added to the tripled 1988 limitations to give the depreciation limitations for calendar year 2003. To determine the dollar limitations applicable to trucks and vans first placed in service during calendar year 2003, the new truck component of the CPI is used instead of the new car component. The new truck component of the CPI was 112.4 for October 1987 and 147.5 for October 2002. The October 2002 index exceeded the October 1987 index by 35.1. The Service has, therefore, determined that the automobile price inflation adjustment for 2003 for trucks and vans is 31.23 percent ($35.1/112.4 \times 100\%$). This adjustment is applicable to all trucks and vans that are first placed in service in calendar year 2003. The dollar limitations in § 280F(a) must therefore be multiplied by a factor of 0.3123, and the resulting increases, after rounding to the nearest \$100, are added to the 1988 limitations to give the depreciation limitations applicable to trucks and vans.

(2) Amount of the Limitation. For passenger automobiles placed in service by the taxpayer in calendar year 2003, Tables 1 through 9 contain the dollar amount of the depreciation limitation for each tax year. Use Table 1 for passenger automobiles (other than trucks, vans, electric automobiles, § 168(k)(1) passenger automobiles, and § 168(k)(4) passenger automobiles) placed in service by the taxpayer in calendar year 2003. Use Table 2 for § 168(k)(1) passenger automobiles (other than trucks, vans, and electric automobiles) placed in service by the taxpayer in calendar year 2003. Use Table 3 for § 168(k)(4) passenger automobiles (other than trucks, vans, and electric automobiles) placed in service by the taxpayer in calendar year 2003. Use Table 4 for trucks and vans (other than § 168(k)(1) passenger automobiles and § 168(k)(4) passenger automobiles) placed in service by the taxpayer in calendar year 2003. Use Table 5 for trucks or vans that are § 168(k)(1) passenger automobiles placed in service by the taxpayer in calendar year 2003. Use Table 6 for trucks or vans that are § 168(k)(4) passenger automobiles placed in service by the taxpayer in calendar year 2003. Use Table 7 for electric automobiles (other than § 168(k)(1) passenger automobiles and § 168(k)(4) passenger automobiles) placed in service by the taxpayer in calendar year 2003. Use Table 8 for electric automobiles that are § 168(k)(1) passenger automobiles placed in service by the taxpayer in calendar year 2003. Use Table 9 for electric automobiles that are § 168(k)(4) passenger automobiles placed in service by the taxpayer in calendar year 2003.

REV. PROC. 2003-75 TABLE 1
 DEPRECIATION LIMITATIONS FOR PASSENGER AUTOMOBILES
 (THAT ARE NOT § 168(k)(1) PASSENGER AUTOMOBILES,
 § 168(k)(4) PASSENGER AUTOMOBILES,
 TRUCKS, VANS, OR ELECTRIC AUTOMOBILES)
 PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2003

Tax Year -----	Amount -----
1st Tax Year	\$3,060
2nd Tax Year	\$4,900
3rd Tax Year	\$2,950
Each Succeeding Year	\$1,775

REV. PROC. 2003-75 TABLE 2
 DEPRECIATION LIMITATIONS FOR
 § 168(k)(1) PASSENGER AUTOMOBILES
 (THAT ARE NOT TRUCKS, VANS, OR ELECTRIC AUTOMOBILES)
 PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2003

Tax Year -----	Amount -----
1st Tax Year	\$7,660
2nd Tax Year	\$4,900
3rd Tax Year	\$2,950
Each Succeeding Year	\$1,775

REV. PROC. 2003-75 TABLE 3
 DEPRECIATION LIMITATIONS FOR
 § 168(k)(4) PASSENGER AUTOMOBILES
 (THAT ARE NOT TRUCKS, VANS, OR ELECTRIC AUTOMOBILES)
 PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2003

Tax Year -----	Amount -----
1st Tax Year	\$10,710
2nd Tax Year	\$ 4,900
3rd Tax Year	\$ 2,950
Each Succeeding Year	\$ 1,775

REV. PROC. 2003-75 TABLE 4
 DEPRECIATION LIMITATIONS FOR TRUCKS AND VANS
 (THAT ARE NOT § 168(k)(1) PASSENGER AUTOMOBILES
 OR § 168(k)(4) PASSENGER AUTOMOBILES)
 PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2003

Tax Year -----	Amount -----
1st Tax Year	\$3,360
2nd Tax Year	\$5,400
3rd Tax Year	\$3,250
Each Succeeding Year	\$1,975

REV. PROC. 2003-75 TABLE 5
 DEPRECIATION LIMITATIONS FOR TRUCKS AND VANS
 THAT ARE § 168(k)(1) PASSENGER AUTOMOBILES
 PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2003

Tax Year	Amount
-----	-----
1st Tax Year	\$7,960
2nd Tax Year	\$5,400
3rd Tax Year	\$3,250
Each Succeeding Year	\$1,975

REV. PROC. 2003-75 TABLE 6
 DEPRECIATION LIMITATIONS FOR TRUCKS AND VANS
 THAT ARE § 168(k)(4) PASSENGER AUTOMOBILES
 PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2003

Tax Year	Amount
-----	-----
1st Tax Year	\$11,010
2nd Tax Year	\$ 5,400
3rd Tax Year	\$ 3,250
Each Succeeding Year	\$ 1,975

REV. PROC. 2003-75 TABLE 7
 DEPRECIATION LIMITATIONS FOR ELECTRIC AUTOMOBILES
 (THAT ARE NOT § 168(k)(1) PASSENGER AUTOMOBILES
 OR § 168(k)(4) PASSENGER AUTOMOBILES)
 PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2003

Tax Year	Amount
-----	-----
1st Tax Year	\$ 9,080
2nd Tax Year	\$14,600
3rd Tax Year	\$ 8,750
Each Succeeding Year	\$ 5,225

REV. PROC. 2003-75 TABLE 8
 DEPRECIATION LIMITATIONS FOR ELECTRIC AUTOMOBILES
 THAT ARE § 168(k)(1) PASSENGER AUTOMOBILES
 PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2003

Tax Year	Amount
-----	-----
1st Tax Year	\$22,880
2nd Tax Year	\$14,600
3rd Tax Year	\$ 8,750
Each Succeeding Year	\$ 5,225

REV. PROC. 2003-75 TABLE 9
DEPRECIATION LIMITATIONS FOR ELECTRIC AUTOMOBILES
THAT ARE § 168(k)(4) PASSENGER AUTOMOBILES
PLACED IN SERVICE BY THE TAXPAYER DURING CALENDAR YEAR 2003

Tax Year -----	Amount -----
1st Tax Year	\$32,030
2nd Tax Year	\$14,600
3rd Tax Year	\$ 8,750
Each Succeeding Year	\$ 5,225

03. Inclusions in Income of Lessees of Passenger Automobiles.

The inclusion amounts for passenger automobiles (including § 168(k)(1) passenger automobiles and § 168(k)(4) passenger automobiles) first leased in calendar year 2003 are calculated under the procedures described in § 1.280F-7(a). Lessees of passenger automobiles other than trucks, vans, and electric automobiles should use Table 10 of this revenue procedure in applying these procedures, while lessees of trucks and vans should use Table 11 of this revenue procedure and lessees of electric automobiles should use Table 12 of this revenue procedure.

REV. PROC. 2003-75 TABLE 10
DOLLAR AMOUNTS FOR PASSENGER AUTOMOBILES
(THAT ARE NOT TRUCKS, VANS, OR ELECTRIC AUTOMOBILES)
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2003

Fair Market Value of Passenger Automobile		Tax Year During Lease				
		1st	2nd	3rd	4th	5th and
Later						
Over	Not Over					
\$18,000	18,500	10	22	33	40	45
18,500	19,000	12	26	39	46	53
19,000	19,500	14	30	44	53	61
19,500	20,000	15	34	50	59	69
20,000	20,500	17	37	56	66	77
20,500	21,000	19	41	61	73	85
21,000	21,500	21	45	66	80	92
21,500	22,000	22	49	72	87	100
22,000	23,000	25	54	81	97	111
23,000	24,000	28	62	92	110	127
24,000	25,000	32	70	103	123	143
25,000	26,000	35	77	115	137	158
26,000	27,000	39	85	125	151	174
27,000	28,000	42	92	137	165	189
28,000	29,000	46	100	148	178	204
29,000	30,000	49	108	159	191	221
30,000	31,000	52	115	171	205	236
31,000	32,000	56	123	182	218	251
32,000	33,000	59	130	194	231	267

33,000	34,000	63	138	204	245	283
34,000	35,000	66	146	215	259	298
35,000	36,000	70	153	227	272	314
36,000	37,000	73	161	238	285	330
37,000	38,000	77	168	249	299	346
38,000	39,000	80	176	260	313	361
39,000	40,000	83	184	272	326	376
40,000	41,000	87	191	283	340	391
41,000	42,000	90	199	294	353	407
42,000	43,000	94	206	306	366	423
43,000	44,000	97	214	317	380	438
44,000	45,000	101	221	328	394	454
45,000	46,000	104	229	339	407	470
46,000	47,000	108	236	351	420	486
47,000	48,000	111	244	362	434	501
48,000	49,000	115	251	374	447	516
49,000	50,000	118	259	385	460	532
50,000	51,000	121	267	396	474	548
51,000	52,000	125	274	407	488	563
52,000	53,000	128	282	418	502	578
53,000	54,000	132	289	430	515	594
54,000	55,000	135	297	441	528	610
55,000	56,000	139	304	452	542	626
56,000	57,000	142	312	463	556	641
57,000	58,000	146	320	474	569	656
58,000	59,000	149	327	486	582	672
59,000	60,000	152	335	497	596	688
60,000	62,000	158	346	514	616	711
62,000	64,000	165	361	537	642	743
64,000	66,000	171	377	559	670	773
66,000	68,000	178	392	581	697	805
68,000	70,000	185	407	604	724	835
70,000	72,000	192	422	626	751	867
72,000	74,000	199	437	649	778	898
74,000	76,000	206	452	672	804	930
76,000	78,000	213	467	694	832	960
78,000	80,000	220	483	716	859	991
80,000	85,000	232	509	756	906	1,046
85,000	90,000	249	547	812	973	1,124
90,000	95,000	266	585	868	1,041	1,202
95,000	100,000	284	623	924	1,108	1,280
100,000	110,000	309	680	1,009	1,209	1,397
110,000	120,000	344	755	1,122	1,344	1,552
120,000	130,000	378	831	1,234	1,479	1,708
130,000	140,000	413	907	1,346	1,614	1,864
140,000	150,000	447	983	1,459	1,749	2,019
150,000	160,000	482	1,059	1,571	1,884	2,175
160,000	170,000	516	1,135	1,683	2,019	2,331
170,000	180,000	551	1,210	1,796	2,154	2,487
180,000	190,000	585	1,286	1,909	2,288	2,643
190,000	200,000	620	1,362	2,021	2,423	2,798
200,000	210,000	654	1,438	2,133	2,559	2,953
210,000	220,000	689	1,513	2,246	2,694	3,109
220,000	230,000	723	1,589	2,359	2,828	3,265
230,000	240,000	758	1,665	2,471	2,963	3,421
240,000	250,000	792	1,741	2,583	3,098	3,577

REV. PROC. 2003-75 TABLE 11
DOLLAR AMOUNTS FOR TRUCKS AND VANS
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2003

Fair Market Value of Truck or Van		Tax Year During Lease				
		1st	2nd	3rd	4th	5th and
Later						
Over	Not Over					
\$18,500	19,000	7	14	22	24	29
19,000	19,500	8	18	27	32	36
19,500	20,000	10	22	33	38	44
20,000	20,500	12	26	38	45	52
20,500	21,000	14	29	44	52	60
21,000	21,500	15	34	49	59	67
21,500	22,000	17	37	55	66	75
22,000	23,000	20	43	63	76	86
23,000	24,000	23	51	74	89	102
24,000	25,000	27	58	86	102	118
25,000	26,000	30	66	97	116	133
26,000	27,000	33	73	109	129	149
27,000	28,000	37	81	119	143	165
28,000	29,000	40	89	130	157	180
29,000	30,000	44	96	142	170	196
30,000	31,000	47	104	153	183	212
31,000	32,000	51	111	165	196	227
32,000	33,000	54	119	176	210	242
33,000	34,000	58	126	187	224	258
34,000	35,000	61	134	198	238	273
35,000	36,000	65	141	210	251	289
36,000	37,000	68	149	221	264	305
37,000	38,000	71	157	232	278	320
38,000	39,000	75	164	243	292	336
39,000	40,000	78	172	254	305	352
40,000	41,000	82	179	266	318	367
41,000	42,000	85	187	277	332	383
42,000	43,000	89	194	289	345	398
43,000	44,000	92	202	300	358	414
44,000	45,000	96	209	311	373	429
45,000	46,000	99	217	322	386	445
46,000	47,000	102	225	333	400	460
47,000	48,000	106	232	345	413	476
48,000	49,000	109	240	356	426	492
49,000	50,000	113	247	368	439	507
50,000	51,000	116	255	379	453	523
51,000	52,000	120	263	389	467	538
52,000	53,000	123	270	401	480	554
53,000	54,000	127	278	412	493	570
54,000	55,000	130	285	424	507	585
55,000	56,000	134	293	434	521	601
56,000	57,000	137	301	445	534	617
57,000	58,000	140	308	457	548	632
58,000	59,000	144	316	468	561	647
59,000	60,000	147	323	480	575	663

60,000	62,000	152	335	496	595	687
62,000	64,000	159	350	519	622	717
64,000	66,000	166	365	542	648	749
66,000	68,000	173	380	564	676	780
68,000	70,000	180	395	587	702	811
70,000	72,000	187	410	609	730	842
72,000	74,000	194	426	631	757	873
74,000	76,000	201	441	654	783	905
76,000	78,000	208	456	676	811	935
78,000	80,000	215	471	699	837	967
80,000	85,000	227	497	739	885	1,021
85,000	90,000	244	535	795	952	1,099
90,000	95,000	261	573	851	1,020	1,177
95,000	100,000	278	611	907	1,088	1,254
100,000	110,000	304	668	992	1,188	1,372
110,000	120,000	339	744	1,104	1,323	1,527
120,000	130,000	373	820	1,216	1,458	1,683
130,000	140,000	408	895	1,329	1,593	1,839
140,000	150,000	442	971	1,442	1,728	1,994
150,000	160,000	477	1,047	1,554	1,862	2,151
160,000	170,000	511	1,123	1,666	1,998	2,306
170,000	180,000	546	1,198	1,779	2,133	2,462
180,000	190,000	580	1,274	1,892	2,267	2,618
190,000	200,000	615	1,350	2,004	2,402	2,773
200,000	210,000	649	1,426	2,116	2,537	2,929
210,000	220,000	684	1,502	2,228	2,672	3,085
220,000	230,000	718	1,578	2,341	2,807	3,240
230,000	240,000	753	1,653	2,454	2,942	3,396
240,000	250,000	787	1,729	2,566	3,077	3,552

REV. PROC. 2003-75 TABLE 12
DOLLAR AMOUNTS FOR ELECTRIC AUTOMOBILES
WITH A LEASE TERM BEGINNING IN CALENDAR YEAR 2003

Fair Market Value of Electric Automobile		Tax Year During Lease				
		1st	2nd	3rd	4th	5th and
Later						
Over	Not Over					
\$53,000	54,000	28	60	90	108	124
54,000	55,000	31	68	101	121	140
55,000	56,000	35	76	112	134	156
56,000	57,000	38	83	124	148	171
57,000	58,000	42	91	134	162	187
58,000	59,000	45	98	146	175	203
59,000	60,000	49	106	157	188	218
60,000	62,000	54	117	174	209	241
62,000	64,000	61	132	197	235	273
64,000	66,000	68	147	219	263	304
66,000	68,000	75	163	241	290	334
68,000	70,000	81	178	264	317	366
70,000	72,000	88	193	287	343	397
72,000	74,000	95	208	309	371	428

74,000	76,000	102	223	332	397	460
76,000	78,000	109	239	353	425	491
78,000	80,000	116	254	376	452	521
80,000	85,000	128	280	416	499	576
85,000	90,000	145	318	472	566	655
90,000	95,000	162	356	528	634	732
95,000	100,000	180	394	584	701	810
100,000	110,000	206	451	668	803	926
110,000	120,000	240	527	781	937	1,082
120,000	130,000	275	602	894	1,072	1,238
130,000	140,000	309	678	1,006	1,207	1,394
140,000	150,000	344	754	1,118	1,342	1,550
150,000	160,000	378	830	1,231	1,477	1,705
160,000	170,000	413	905	1,344	1,612	1,861
170,000	180,000	447	981	1,456	1,747	2,017
180,000	190,000	482	1,057	1,568	1,882	2,172
190,000	200,000	516	1,133	1,681	2,016	2,329
200,000	210,000	551	1,208	1,794	2,151	2,484
210,000	220,000	585	1,284	1,906	2,287	2,639
220,000	230,000	620	1,360	2,018	2,421	2,796
230,000	240,000	654	1,436	2,131	2,556	2,951
240,000	250,000	689	1,511	2,244	2,691	3,107

04. Maximum Automobile Value for Using the Cents-per-mile Valuation Rule.

(1) Amount of Adjustment. Under § 1.61-21(e)(1)(iii)(A), the limitation on the fair market value of an employer-provided passenger automobile first made available to any employee for personal use after 1988 is to be adjusted in accordance with § 280F(d)(7). Accordingly, the adjustment for any calendar year is the percentage (if any) by which the CPI automobile component for October of the preceding calendar year exceeds the CPI automobile component for October 1987. See, section 4.02(1) of this revenue procedure. The new car component of the CPI was 115.2 for October 1987 and 136.7 for October 2002. The October 2002 index exceeded the October 1987 index by 21.5. The Service has, therefore, determined that the adjustment for 2003 is 18.66 percent ($21.5/115.2 \times 100\%$). This adjustment is applicable to all employer-provided passenger automobiles first made available to any employee for personal use in calendar year 2003. The maximum fair market value specified in § 1.61-21(e)(1)(iii)(A) must therefore be multiplied by a factor of 0.1866, and the resulting increase, after rounding to the nearest \$100, is added to \$12,800 to give the maximum value for calendar year 2003.

(2) The Maximum Automobile Value. For passenger automobiles first made available in calendar year 2003 to any employee of the employer for personal use, the vehicle cents-per-mile valuation rule may be applicable if the fair market value of the passenger automobile on the date it is first made available does not exceed \$15,200.

.05 Revised Limitation Amounts for § 168(k)(1) Passenger Automobiles Placed in Service During 2001 and 2002.

(1) Calculation of the Revised Amount. The revised depreciation limits provided in this section for § 168(k)(1) passenger automobiles (other than electric

automobiles) were calculated by augmenting the existing limitations on the first year allowance in Rev. Proc. 2001-19 (for passenger automobiles placed in service in calendar year 2001) and in Rev. Proc. 2002-14 (for passenger automobiles placed in service in calendar year 2002) by \$4,600. Similarly, the revised depreciation limits provided in this section for electric automobiles that are § 168(k)(1) passenger automobiles were calculated by augmenting the existing limitations on the first year allowance in Rev. Proc. 2001-19 (for electric automobiles placed in service in calendar year 2001) and in Rev. Proc. 2002-14 (for electric automobiles placed in service in calendar year 2002) by \$13,800 (\$4,600 tripled).

(2) Amount of the Revised Limitation. For § 168(k)(1) passenger automobiles (other than electric automobiles) placed in service by the taxpayer in calendar year 2001, Table 13 of this revenue procedure contains the revised dollar amount of the depreciation limitations for each tax year. For electric automobiles that are § 168(k)(1) passenger automobiles placed in service by the taxpayer in calendar year 2001, Table 14 of this revenue procedure contains these revised amounts. For § 168(k)(1) passenger automobiles (other than electric automobiles) placed in service by the taxpayer in calendar year 2002, Table 15 of this revenue procedure contains the revised dollar amount of the depreciation limitations for each tax year. For electric automobiles that are § 168(k)(1) passenger automobiles placed in service by the taxpayer in calendar year 2002, Table 16 of this revenue procedure contains these revised amounts.

REV. PROC. 2003-75 TABLE 13
DEPRECIATION LIMITATIONS FOR
§ 168(k)(1) PASSENGER AUTOMOBILES
(THAT ARE NOT ELECTRIC AUTOMOBILES) FIRST PLACED
IN SERVICE BY THE TAXPAYER IN CALENDAR YEAR 2001

Tax Year	Amount
-----	-----
1st Tax Year	\$7,660
2nd Tax Year	\$4,900
3rd Tax Year	\$2,950
Each Succeeding Year	\$1,775

REV. PROC. 2003-75 TABLE 14
DEPRECIATION LIMITATIONS FOR ELECTRIC AUTOMOBILES THAT ARE
§ 168(k)(1) PASSENGER AUTOMOBILES FIRST PLACED IN
SERVICE BY THE TAXPAYER IN CALENDAR YEAR 2001

Tax Year	Amount
-----	-----
1st Tax Year	\$23,080
2nd Tax Year	\$14,800
3rd Tax Year	\$ 8,850
Each Succeeding Year	\$ 5,325

REV. PROC. 2003-75 TABLE 15
DEPRECIATION LIMITATIONS FOR
§ 168(k)(1) PASSENGER AUTOMOBILES
(THAT ARE NOT ELECTRIC AUTOMOBILES) FIRST PLACED
IN SERVICE BY THE TAXPAYER IN CALENDAR YEAR 2002

Tax Year	Amount
-----	-----
1st Tax Year	\$7,660
2nd Tax Year	\$4,900
3rd Tax Year	\$2,950
Each Succeeding Year	\$1,775

REV. PROC. 2003-75 TABLE 16
DEPRECIATION LIMITATIONS FOR ELECTRIC AUTOMOBILES THAT ARE
§ 168(k)(1) PASSENGER AUTOMOBILES FIRST PLACED IN
SERVICE BY THE TAXPAYER IN CALENDAR YEAR 2002

Tax Year	Amount
-----	-----
1st Tax Year	\$22,980
2nd Tax Year	\$14,700
3rd Tax Year	\$ 8,750
Each Succeeding Year	\$ 5,325

5. Effective Date

This revenue procedure, with the exception of section 4.05, applies to passenger automobiles (other than leased passenger automobiles) that are first placed in service by the taxpayer during calendar year 2003, to leased passenger automobiles that are first leased by the taxpayer during calendar year 2003, and to employer-provided passenger automobiles first made available to employees for personal use in calendar year 2003. Section 4.05 of this revenue procedure applies to § 168(k)(1) passenger automobiles that are placed in service by the taxpayer during calendar year 2001 or 2002.

6. Effect On Other Documents

Rev. Proc. 2001-19 and Rev. Proc. 2002-14 are amplified.

Drafting Information

The principal author of this revenue procedure is Bernard P. Harvey of the Office of the Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding the depreciation limitations and lessee inclusion amounts in this revenue procedure, contact Mr. Harvey at (202) 622-3110; for further information regarding the maximum automobile value for applying the vehicle cents-per-mile valuation rule, contact John B. Richards of the Office of the Associate Chief Counsel (Tax Exempt and Government Entities) at (202) 622-6040 (not toll-free calls).

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Revenue Procedures

Rev. Proc. 2004-20, 2004-13 IRB 642, 03/26/2004, IRC Sec(s). 280F

Limitation on depreciation for auto owners and lessees.

Headnote:

IRS provided owners and lessees of passenger automobiles (including trucks, vans, and electric automobiles) with tables detailing limitations on depreciation deductions for passenger automobiles first placed in service during calendar year 2004 and amounts to be included in income for passenger automobiles first leased during calendar year 2004. Separate tables are provided for passenger automobiles qualifying for additional first-year bonus depreciation under Code Sec. 168(k); . In addition, IRS provided maximum allowable value of employer-provided automobiles first made available to employees for personal use in calendar year 2004 for which vehicle cents-per-mile valuation rule provided under Reg. § 1.61-21(e) may be applicable.

Reference(s): ¶ 280F5.01(5); Code Sec. 280F;

Full Text:

1. Purpose

01. This revenue procedure provides:

(1) limitations on depreciation deductions for owners of passenger automobiles first placed in service by the taxpayer during calendar year 2004, including special tables of limitations on depreciation deductions for trucks and vans, and for passenger automobiles designed to be propelled primarily by electricity and built by an original equipment manufacturer (electric automobiles); (2) the amounts to be included in income by lessees of passenger automobiles first leased by the taxpayer during calendar year 2004, including a separate table of inclusion amounts for lessees of trucks and vans, and a separate table for lessees of electric automobiles; and (3) the maximum allowable value of employer provided passenger automobiles firstmade available to employees for personal use in calendar year 2004 for which the vehicle cents-per-mile valuation rule provided under § 1.61-21(e) of the Income Tax Regulations may be applicable.

02. This revenue procedure also provides tables of dollar limitations on depreciation deductions for owners of passenger automobiles to which the additional 50 percent first-year allowance for depreciation available under § 168(k)(4) applies, including special tables of limitations on depreciation deductions for qualifying trucks and vans and for qualifying electric automobiles. For purposes of these tables, the additional 50 percent first-year allowance does not apply if the taxpayer has elected under § 168(k)(2)(C)(iii) not to take the additional allowance.

03. The tables detailing these depreciation limitations and lessee inclusion amounts reflect the automobile price inflation adjustments required by § 280F(d)(7). The maximum allowable passenger automobile value for applying the vehicle cents-per-mile valuation rule reflects the automobile price inflation adjustment of § 280F(d)(7) of the

Internal Revenue Code, as required by § 1.61-21(e)(1)(iii)(A).

2. Background

01. For owners of passenger automobiles, § 280F(a) imposes dollar limitations on the depreciation deduction for the year that the passenger automobile is placed in service by the taxpayer and each succeeding year. In the case of electric automobiles placed in service after August 5, 1997, and before January 1, 2007, § 280F(a)(1)(C) requires tripling of these limitation amounts. Section 280F(d)(7) requires the amounts allowable as depreciation deductions to be increased by a price inflation adjustment amount for passenger automobiles placed in service after 1988. The method of calculating this price inflation amount for trucks and vans placed in service in or after calendar year 2003 uses a different CPI “automobile component” (the “new trucks” component) than that used in the price inflation amount calculation for other passenger automobiles (the “new cars” component), resulting in somewhat higher depreciation deductions for trucks and vans. This change reflects the higher rate of price inflation that trucks and vans have been subject to since 1988. For purposes of this revenue procedure, the term “trucks and vans” refers to passenger automobiles that are built on a truck chassis, including minivans and sport utility vehicles (SUVs) that are built on a truck chassis.

02. Section 101 of the Job Creation and Worker Assistance Act of 2002, Pub. L. No. 107-147, 116 Stat. 21 (March 9, 2002) added § 168(k) to the Code. Generally, § 168(k)(1)(A) provides an additional 30 percent first-year depreciation deduction for new property acquired by the taxpayer after September 10, 2001, and before September 11, 2004 (subsequently extended to January 1, 2005), so long as no written binding contract for the acquisition of the property existed prior to September 11, 2001.

03. Section 201 of the Jobs and Growth Tax Relief Reconciliation Act of 2003, Pub. L. No. 108-27, 117 Stat. 752 (May 28, 2003) added § 168(k)(4) to the Code. Section 168(k)(4)(A)(i) provides that § 168(k)(1) is applied by substituting “50 percent” for “30 percent” for new property acquired by the taxpayer after May 5, 2003, and before January 1, 2005, so long as no written binding contract for the acquisition of the property existed prior to May 6, 2003. In the case of a passenger automobile to which the 50 percent additional allowance applies (or would apply but for an election under § 168(k)(4)(E)) and for which no election has been made under § 168(k)(2)(C)(iii), § 168(k)(4)(D) increases the first-year depreciation allowed under § 280F(a)(1)(A) by \$7,650.

For purposes of this revenue procedure, a passenger automobile to which the additional 50 percent first-year allowance under § 168(k)(4) applies (or would apply but for an election under § 168(k)(4)(E)) and for which no election has been made under § 168(k)(2)(C)(iii) is referred to as a “§ 168(k)(4) passenger automobile”.

04. For leased passenger automobiles, § 280F(c) requires a reduction in the deduction allowed to the lessee of the passenger automobile. The reduction must be substantially equivalent to the

limitations on the depreciation deductions imposed on owners of passenger automobiles. Under § 1.280F-7(a), this reduction requires the lessees to include in gross income an inclusion amount determined by applying a formula to the amount obtained from a table.

There is a table for lessees of electric automobiles, a table for lessees of trucks and vans, and a table for all other passenger automobiles. Each table shows inclusion amounts for a range of fair market values for each tax year after the passenger automobile is first leased. These tables should also be used by lessees of § 168(k)(4) passenger automobiles.

05. For passenger automobiles (including trucks, vans, and electric automobiles) first provided by employers to employees that meet the requirements of § 1.61-21(e)(1), the value to the employee of the use of the passenger automobile may be determined under the vehicle cents-per-mile valuation rule of § 1.61-21(e). Section 1.61-21(e)(1)(iii)(A) provides that for a passenger automobile first made available after 1988 to any employee of the employer for personal use, the value of the use of the passenger automobile may not be determined under the vehicle cents-per-mile valuation rule for a calendar year if the fair market value of the passenger automobile (determined pursuant to § 1.61-21(d)(5)(i) through (iv)) on the first date the passenger automobile is made available to the employee exceeds \$12,800 as adjusted by § 280F(d)(7).

3. Scope

01. The limitations on depreciation deductions in section 4.02(2) of this revenue procedure apply to passenger automobiles (other than leased passenger automobiles) that are placed in service by the taxpayer in calendar year 2004, and continue to apply for each tax year that the passenger automobile remains in service.

02. The tables in section 4.03 of this revenue procedure apply to leased passenger automobiles for which the lease term begins during calendar year 2004. Lessees of such passenger automobiles must use these tables to determine the inclusion amount for each tax year during which the passenger automobile is leased. See Rev. Proc. 2002-14, 2002-1 C.B. 450, for passenger automobiles first leased before January 1, 2003, and Rev. Proc. 2003-75, 2003-2 C.B. 1018, for passenger automobiles first leased during calendar year 2003.

03. The maximum fair market value figure in section 4.04(2) of this revenue procedure applies to employer-provided passenger automobiles first made available to any employee for personal use in calendar year 2004. See Rev. Proc. 2002-14 for the maximum fair market value figure for passenger automobiles first made available before January 1, 2003, and Rev. Proc. 2003-75 for passenger automobiles first made available during calendar year 2003.

4. Application

01. In General.

(1) **Limitations on Depreciation Deductions for Certain Automobiles.** The limitations on depreciation deductions for passenger automobiles placed in service by the taxpayer for the first time during calendar year 2004 are found in Tables 1 through 9 in section 4.02(2) of this revenue procedure. Table 1 of this revenue procedure provides limitations on depreciation deductions for a passenger automobile (other than a truck, van, electric automobile, or § 168(k)(4) passenger automobile).

Table 2 of this revenue procedure provides limitations on depreciation deductions for a § 168(k)(4) passenger automobile (other than a truck, van, or electric automobile). Table 3 of this revenue procedure provides limitations on depreciation deductions for a truck or van (other than a § 168(k)(4) passenger automobile).

Table 4 of this revenue procedure provides limitations on depreciation deductions for a truck or van that is a § 168(k)(4) passenger automobile. Table 5 of this revenue procedure provides limitations on depreciation deductions for an electric automobile (other than a § 168(k)(4) passenger automobile).

Table 6 of this revenue procedure provides limitations on depreciation deductions for an electric automobile that is a § 168(k)(4) passenger automobile.

(2) **Inclusions in Income of Lessees of Passenger Automobiles.** A taxpayer first leasing a passenger automobile during calendar year 2004 must determine the inclusion amount that is added to gross income using the tables in section 4.03 of this revenue procedure. The inclusion amount is determined using Table 7 in the case of a passenger automobile (other than a truck, van, or electric automobile), Table 8 in the case of a truck or van, and Table 9 in the case of an electric automobile. In addition, the procedures of § 1.280F-7(a) must be followed.

(3) **Maximum Automobile Value for Using the Cents-per-mile Valuation Rule.** An employer providing a passenger automobile for the first time in calendar year 2004 for the personal use of any employee may determine the value of the use of the passenger automobile by using the cents-per-mile valuation rule in § 1.61-21(e) if the fair market value of the passenger automobile does not exceed the amount specified in section 4.04(2) of this revenue procedure. If the fair market value of the passenger automobile exceeds the amount specified in section 4.04(2) of this revenue procedure, the employer may determine the value of the use of the passenger automobile under the general valuation rules of § 1.61-21(b) or under the special valuation rules of § 1.61-21(d) (Automobile lease valuation) or § 1.61-21(f) (Commuting valuation) if the applicable requirements are met.

02. Limitations on Depreciation Deductions for Certain Automobiles.

(1) Amount of the Inflation Adjustment. Under § 280F(d)(7)(B)(i), the automobile price inflation adjustment for any calendar year is the percentage (if any) by which the CPI automobile component for October of the preceding calendar year exceeds the CPI automobile component for October 1987. The term “CPI automobile component” is defined in § 280F(d)(7)(B)(ii) as the “automobile component” of the Consumer Price Index for all Urban Consumers published by the Department of Labor (the CPI). The new car component of the CPI was 115.2 for October 1987 and 133.5 for October 2003. The October 2003 index exceeded the October 1987 index by 18.3. The Service has, therefore, determined that the automobile price inflation adjustment for 2004 for passenger automobiles (other than trucks and vans) is 15.89 percent ($18.3/115.2 \times 100\%$). This adjustment is applicable to all passenger automobiles (other than trucks and vans) that are first placed in service in calendar year 2004. The dollar limitations in § 280F(a) must therefore be multiplied by a factor of 0.1589, and the resulting increases, after rounding to the nearest \$100, are added to the 1988 limitations to give the depreciation limitations applicable to passenger automobiles (other than trucks, vans, and electric automobiles) for calendar year 2004. To determine the dollar limitations applicable to an electric automobile first placed in service during calendar year 2004, the dollar limitations in § 280F(a) are tripled in accordance with § 280F(a)(1)(C) and are then multiplied by a factor of 0.1588; the resulting increases, rounding to the nearest \$100, are added to the tripled 1988 limitations to give the depreciation limitations for calendar year 2004. To determine the dollar limitations applicable to trucks and vans first placed in service during calendar year 2004, the new truck component of the CPI is used instead of the new car component. The new truck component of the CPI was 112.4 for October 1987 and 144.6 for October 2003. The October 2003 index exceeded the October 1987 index by 32.2. The Service has, therefore, determined that the automobile price inflation adjustment for 2004 for trucks and vans 28.65 percent ($32.2/112.4 \times 100\%$). This adjustment is applicable to all trucks and vans that are first placed in calendar year 2004. The dollar limitations in § 280F(a) must therefore be multiplied a factor of 0.2865, and the resulting increases, after rounding to the nearest \$100, are added to the 1988 limitations to give the depreciation limitations applicable to trucks vans.

(2) Amount of the Limitation. For passenger automobiles placed in service by the taxpayer in calendar year 2004, Tables 1 through 6 contain the dollar amount of the depreciation limitation for each tax year. Table 1 for passenger automobiles (other than trucks, vans, electric automobiles, and § 168(k)(4) passenger automobiles) placed in service by the taxpayer in calendar year 2004. Use Table 2 for § 168(k)(4) passenger automobiles (other than trucks, vans, and electric automobiles) placed in service by the taxpayer in calendar year 2004. Use Table 3 for trucks and vans (other than § 168(k)(4) passenger automobiles) placed in service the taxpayer in calendar year 2004. Use Table 4 for trucks or vans that are § 168(k)(4) passenger automobiles placed in service by the taxpayer in calendar year 2004. Use Table 5 for electric automobiles (other than § 168(k)(4) passenger automobiles) placed in service by the taxpayer in calendar year 2004. Use Table 6 for electric automobiles that are § 168(k)(4) passenger automobiles placed in service by the taxpayer in calendar year 2004.

Rev. Proc. 2004-20 Table 1
 Depreciation Limitations For Passenger Automobiles
 (THAT ARE NOT § 168(k)(4) PASSENGER AUTOMOBILES, TRUCKS,
 VANS, OR ELECTRIC AUTOMOBILES)
 Placed In Service By The Taxpayer During Calendar Year 2004

Tax Year	Amount
1st Tax Year	\$2,960
2nd Tax Year	\$4,800
3rd Tax Year	\$2,850
Each Succeeding Year	\$1,675

Rev. Proc. 2004-20 Table 2
 DEPRECIATION LIMITATIONS FOR § 168(k)(4)
 PASSENGER AUTOMOBILES
 (THAT ARE NOT TRUCKS, VANS, OR ELECTRIC AUTOMOBILES)
 Placed In Service By The Taxpayer During Calendar Year 2004

Tax Year	Amount
1st Tax Year	\$10,610
2nd Tax Year	\$ 4,800
3rd Tax Year	\$ 2,850
Each Succeeding Year	\$ 1,675

Rev. Proc. 2004-20 Table 3
 Depreciation Limitations For Trucks And Vans
 (THAT ARE NOT § 168(k)(4) PASSENGER AUTOMOBILES)
 Placed In Service By The Taxpayer During Calendar Year 2004

Tax Year	Amount
1st Tax Year	\$3,260
2nd Tax Year	\$5,300
3rd Tax Year	\$3,150
Each Succeeding Year	\$1,875

Rev. Proc. 2004-20 Table 4
 Depreciation Limitations For Trucks And Vans
 (THAT ARE § 168(k)(4) PASSENGER AUTOMOBILES)
 Placed In Service By The Taxpayer During Calendar Year 2004

Tax Year	Amount
1st Tax Year	\$10,910
2nd Tax Year	\$ 5,300
3rd Tax Year	\$ 3,150
Each Succeeding Year	\$ 1,875

Rev. Proc. 2004-20 Table 5
 Depreciation Limitations For Electric Automobiles
 (THAT ARE NOT § 168(k)(4) PASSENGER AUTOMOBILES)
 Placed In Service By The Taxpayer During Calendar Year 2004

Tax Year	Amount
1st Tax Year	\$ 8,880
2nd Tax Year	\$14,300
3rd Tax Year	\$ 8,550
Each Succeeding Year	\$ 5,125

Rev. Proc. 2004-20 Table 6
 Depreciation Limitations For Electric Automobiles
 (THAT ARE § 168(k)(4) PASSENGER AUTOMOBILES)
 Placed In Service By The Taxpayer During Calendar Year 2004

Tax Year	Amount
1st Tax Year	\$31,830
2nd Tax Year	\$14,300
3rd Tax Year	\$ 8,550
Each Succeeding Year	\$ 5,125

03. Inclusions in Income of Lessees of Passenger Automobiles.

The inclusion amounts for passenger automobiles (including § 168(k)(1) passenger automobiles and § 168(k)(4) passenger automobiles) first leased in calendar year 2004 are calculated under the procedures described in § 1.280F-7(a).

Lessees of passenger automobiles other than trucks, vans, and electric automobiles should use Table 7 of this revenue procedure in applying these procedures, while lessees of trucks and vans should use Table 8 of this revenue procedure and lessees of electric automobiles should use Table 9 of this revenue procedure.

Rev. Proc. 2004-20 Table 7
Dollar Amounts For Passenger Automobiles
(THAT ARE NOT TRUCKS, VANS, OR ELECTRIC AUTOMOBILES)
With a Lease Term Beginning In Calendar Year 2004

Fair Market Value of Passenger Automobile		Tax Year During Lease				
Over	Not Over	1st	2nd	3rd	4th	5th & Later
\$17,500	\$18,000	11	23	33	42	48
18,000	18,500	13	26	40	49	56
18,500	19,000	14	31	46	55	65
19,000	19,500	16	35	51	63	73
19,500	20,000	18	39	57	70	81
20,000	20,500	20	43	63	77	89
20,500	21,000	22	47	69	84	97
21,000	21,500	23	51	75	91	106
21,500	22,000	25	55	81	98	114
22,000	23,000	28	61	90	109	126
23,000	24,000	32	69	102	123	142
24,000	25,000	35	77	114	137	159
25,000	26,000	39	85	126	151	176
26,000	27,000	43	93	137	166	192
27,000	28,000	46	101	149	180	209
28,000	29,000	50	109	161	194	225
29,000	30,000	54	116	174	208	242
30,000	31,000	57	125	185	223	257
31,000	32,000	61	133	197	237	274
32,000	33,000	64	141	209	251	291
33,000	34,000	68	149	221	265	307
34,000	35,000	72	157	232	280	323
35,000	36,000	75	165	244	294	340
36,000	37,000	79	173	256	308	357
37,000	38,000	83	181	268	322	373
38,000	39,000	86	189	280	337	389
39,000	40,000	90	197	292	351	405
40,000	41,000	94	204	304	365	423
41,000	42,000	97	213	316	379	438
42,000	43,000	101	221	327	394	455
43,000	44,000	105	228	340	408	471
44,000	45,000	108	237	351	422	488
45,000	46,000	112	245	363	436	504
46,000	47,000	115	253	375	451	520
47,000	48,000	119	261	387	464	538
48,000	49,000	123	269	398	479	554
49,000	50,000	126	277	411	493	570
50,000	51,000	130	285	422	508	586

51,000	52,000	134	292	435	522	603
52,000	53,000	137	301	446	536	619
53,000	54,000	141	309	458	550	636
54,000	55,000	145	316	471	564	652
55,000	56,000	148	325	482	578	669
56,000	57,000	152	333	493	593	685
57,000	58,000	155	341	506	607	701
58,000	59,000	159	349	517	622	718
59,000	60,000	163	357	529	636	734
60,000	62,000	168	369	547	657	759
62,000	64,000	176	384	571	686	792
64,000	66,000	183	401	594	714	825
66,000	68,000	190	417	618	743	857
68,000	70,000	197	433	642	771	890
70,000	72,000	205	448	666	800	923
72,000	74,000	212	465	689	828	956
74,000	76,000	219	481	713	856	990
76,000	78,000	227	496	738	884	1,022
78,000	80,000	234	513	760	914	1,055
80,000	85,000	247	540	803	963	1,112
85,000	90,000	265	580	862	1,035	1,194
90,000	95,000	283	621	921	1,105	1,277
95,000	100,000	301	661	980	1,177	1,359
100,000	110,000	328	721	1,069	1,284	1,482
110,000	120,000	365	800	1,189	1,426	1,646
120,000	130,000	401	881	1,307	1,568	1,811
130,000	140,000	438	960	1,426	1,711	1,975
140,000	150,000	474	1,041	1,544	1,853	2,140
150,000	160,000	511	1,120	1,663	1,996	2,304
160,000	170,000	547	1,200	1,782	2,138	2,468
170,000	180,000	583	1,281	1,900	2,280	2,633
180,000	190,000	620	1,360	2,020	2,422	2,797
190,000	200,000	656	1,440	2,139	2,564	2,962
200,000	210,000	693	1,520	2,257	2,707	3,126
210,000	220,000	729	1,600	2,376	2,849	3,291
220,000	230,000	765	1,681	2,494	2,991	3,455
230,000	240,000	802	1,760	2,613	3,134	3,619
240,000	250,000	838	1,840	2,732	3,276	3,784

Rev. Proc. 2004-20 Table 8
Dollar Amounts For Trucks and Vans
With a Lease Term Beginning In Calendar Year 2004

Fair Market Value of Truck or Van		Tax Year During Lease				
Over	Not Over	1st	2nd	3rd	4th	5 th & Later
\$18,000	\$18,500	7	15	21	26	30
18,500	19,000	9	18	28	33	38
19,000	19,500	11	22	34	40	47
19,500	20,000	13	26	39	48	55
20,000	20,500	14	31	45	54	63
20,500	21,000	16	35	51	61	72
21,000	21,500	18	38	58	68	80

21,500	22,000	20	42	63	76	88
22,000	23,000	23	48	72	87	100
23,000	24,000	26	57	83	101	117
24,000	25,000	30	64	96	115	133
25,000	26,000	34	72	108	129	149
26,000	27,000	37	81	119	143	166
27,000	28,000	41	88	132	157	183
28,000	29,000	44	97	143	172	198
29,000	30,000	48	104	155	187	215
30,000	31,000	52	112	167	201	231
31,000	32,000	55	121	178	215	248
32,000	33,000	59	128	191	229	264
33,000	34,000	63	136	203	243	281
34,000	35,000	66	145	214	257	298
35,000	36,000	70	152	227	271	314
36,000	37,000	74	160	238	286	330
37,000	38,000	77	169	249	301	346
38,000	39,000	81	176	262	314	364
39,000	40,000	84	185	273	329	379
40,000	41,000	88	192	286	343	396
41,000	42,000	92	200	298	357	412
42,000	43,000	95	209	309	371	429
43,000	44,000	99	216	322	385	445
44,000	45,000	103	224	333	400	462
45,000	46,000	106	233	345	413	479
46,000	47,000	110	240	357	428	495
47,000	48,000	114	248	369	442	511
48,000	49,000	117	257	380	457	527
49,000	50,000	121	264	393	471	544
50,000	51,000	125	272	404	486	560
51,000	52,000	128	280	417	499	577
52,000	53,000	132	288	428	514	593
53,000	54,000	135	297	440	527	610
54,000	55,000	139	304	452	542	626
55,000	56,000	143	312	464	556	643
56,000	57,000	146	321	475	571	659
57,000	58,000	150	328	488	585	675
58,000	59,000	154	336	499	600	691
59,000	60,000	157	345	511	613	708
60,000	62,000	163	356	529	635	733
62,000	64,000	170	372	553	663	766
64,000	66,000	177	389	576	692	798
66,000	68,000	185	404	600	720	832
68,000	70,000	192	420	624	749	864
70,000	72,000	199	436	648	777	897
72,000	74,000	206	453	671	805	931
74,000	76,000	214	468	695	834	963
76,000	78,000	221	484	719	863	996
78,000	80,000	228	501	742	891	1,029
80,000	85,000	241	528	785	940	1,087
85,000	90,000	259	568	844	1,012	1,168
90,000	95,000	277	609	902	1,084	1,250
95,000	100,000	296	648	962	1,155	1,333
100,000	110,000	323	708	1,052	1,261	1,456
110,000	120,000	359	788	1,171	1,403	1,620
120,000	130,000	396	868	1,289	1,546	1,785

130,000	140,000	432	948	1,408	1,688	1,949
140,000	150,000	469	1,028	1,526	1,831	2,113
150,000	160,000	505	1,108	1,645	1,973	2,278
160,000	170,000	541	1,188	1,764	2,115	2,443
170,000	180,000	578	1,268	1,882	2,258	2,607
180,000	190,000	614	1,348	2,001	2,400	2,771
190,000	200,000	651	1,428	2,120	2,542	2,936
200,000	210,000	687	1,508	2,239	2,684	3,100
210,000	220,000	724	1,588	2,357	2,827	3,264
220,000	230,000	760	1,668	2,476	2,969	3,429
230,000	240,000	796	1,748	2,595	3,112	3,593
240,000	250,000	833	1,828	2,713	3,254	3,758

Rev. Proc. 2004-20 Table 9
Dollar Amounts For Electric Automobiles
With a Lease Term Beginning In Calendar Year 2004

Fair Market Value of Electric Automobile		Tax Year During Lease				
Over	Not Over	1st	2nd	3rd	4th	5th & Later
\$ 53,000	\$ 54,000	33	72	106	127	147
54,000	55,000	37	79	118	142	164
55,000	56,000	40	88	130	155	180
56,000	57,000	44	96	141	170	197
57,000	58,000	48	103	154	184	213
58,000	59,000	51	112	165	199	229
59,000	60,000	55	120	177	213	245
60,000	62,000	60	132	195	234	270
62,000	64,000	68	147	219	263	303
64,000	66,000	75	164	242	291	336
66,000	68,000	82	180	266	320	369
68,000	70,000	90	195	290	348	402
70,000	72,000	97	211	314	377	435
72,000	74,000	104	228	337	405	468
74,000	76,000	111	244	361	434	500
76,000	78,000	119	259	385	462	534
78,000	80,000	126	275	409	491	566
80,000	85,000	139	303	451	540	624
85,000	90,000	157	343	510	612	706
90,000	95,000	175	384	569	682	788
95,000	100,000	193	424	628	754	870
100,000	110,000	221	483	718	860	994
110,000	120,000	257	563	837	1,003	1,158
120,000	130,000	294	643	955	1,145	1,323
130,000	140,000	330	723	1,074	1,288	1,486
140,000	150,000	366	804	1,192	1,430	1,651
150,000	160,000	403	883	1,311	1,573	1,815
160,000	170,000	439	963	1,430	1,715	1,980
170,000	180,000	476	1,043	1,549	1,857	2,144
180,000	190,000	512	1,123	1,668	1,999	2,309
190,000	200,000	548	1,203	1,786	2,142	2,473

200,000	210,000	585	1,283	1,905	2,284	2,637
210,000	220,000	621	1,363	2,024	2,426	2,802
220,000	230,000	658	1,443	2,142	2,569	2,966
230,000	240,000	694	1,523	2,261	2,711	3,131
240,000	250,000	730	1,603	2,380	2,854	3,294

04. Maximum Automobile Value for Using the Cents-per-mile Valuation Rule.

(1) Amount of Adjustment. Under § 1.61-21(e)(1)(iii)(A), the limitation on the fair market value of an employer-provided passenger automobile first made available to any employee for personal use after 1988 is to be adjusted in accordance with § 280F(d)(7). Accordingly, the adjustment for any calendar year is the percentage (if any) by which the CPI automobile component for October of the preceding calendar year exceeds the CPI automobile component for October 1987. See, section 4.02(1) of this revenue procedure.

The new car component of the CPI was 115.2 for October 1987 and 133.5 for October 2003. The October 2003 index exceeded the October 1987 index by 18.3.

The Service has, therefore, determined that the adjustment for 2004 is 15.89 percent ($18.3/115.2 \times 100\%$). This adjustment is applicable to all employer-provided passenger automobiles first made available to any employee for personal use in calendar year 2004. The maximum fair market value specified in § 1.61-21(e)(1)(iii)(A) must therefore be multiplied by a factor of 0.1589, and the resulting increase, after rounding to the nearest \$100, is added to \$12,800 to give the maximum value for calendar year 2004.

(2) The Maximum Automobile Value. For passenger automobiles first made available in calendar year 2004 to any employee of the employer for personal use, the vehicle cents-per-mile valuation rule may be applicable if the fair market value of the passenger automobile on the date it is first made available does not exceed \$14,800.

5. Effective Date

This revenue procedure applies to passenger automobiles (other than leased passenger automobiles) that are first placed in service by the taxpayer during calendar year 2004, to leased passenger automobiles that are first leased by the taxpayer during calendar year 2004, and to employer-provided passenger automobiles first made available to employees for personal use in calendar year 2004.

6. Drafting

Information

The principal author of this revenue procedure is Bernard P. Harvey of the Office of Associate Chief Counsel (Passthroughs & Special Industries).

For further information regarding the depreciation limitations and lessee inclusion amounts in this revenue procedure, contact Bernard P. Harvey at (202) 622-3110 (not a toll-free call); for further information regarding the maximum automobile value for applying the vehicle cents-per-mile valuation rule, contact Dan E. Boeskin of the Office of the Associate Chief Counsel (Tax Exempt and Government Entities) at (202) 622-6040 (not toll-free calls).

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Comparison of Business Entities

NOTE: THESE COMPARISONS DO NOT CONSIDER STATE TAX IMPLICATIONS.

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
I. Formation					
A. Method	Articles of Incorporation	Articles of Incorporation	None	Partnership agreement	Articles of Organization filed in state recognizing LLCs
B. Owner eligibility					
1. Number of Owners	No limit	75	One	Two or more for general partnership; one or more general and one or more limited for limited partnership	No limit
2. Type of Owners	No limitation	Certain individuals, estates, trusts and S corporations	Individual	No limitation	No limitation
3. Affiliate Limits	No limitation	Can own up to 100% of the stock of a C corporation and own 100% of the stock of a qualified sub-s subsidiary. No limitation	No limitation	No limitation	No limitation
C. Capital Structure					
1. Equity	No limitations (multiple classes permitted)	Only one class of stock	No stock	No limitations (multiple classes)	No limitations
2. Debt	No specific limits on debts/equity ratio	Safe-harbor for debt	No specific limits	No specific limits	No specific limits
D. Status Determination					
1. Election by Entity	No election requirements	Required election	No election requirements	No election requirement but state law filing	None, unless corporate status is elected
2. Owner Consents	None required	Consent required	None required	None required	None required
E. Liability (check applicable state laws)	Limited to shareholder's capital contributions	Limited to shareholder's contribution	Unlimited	General partners jointly and severally liable. Limited partners are generally limited to capital contributions.	Limited to member's capital contributions.

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
II. <u>Operational Phase</u>					
A. Tax Year	Any year permitted (limit for personal service corporation)	Generally calendar year	Generally calendar year	Generally calendar year	Generally calendar year
B. Tax on Income	Corporate level	Owner level except QSST, where paid by beneficiary.	Individual level	Owner level	Member or entity if elected
C. Elections	Corporate level	Corporate level	Individual level	Partnership level	Entity level
D. Allocation of Income/ Deductions	Not permitted (except through multiple equity structure)	Not permitted (except through debt/equity structure)	N/A	Permitted if substantial economic effect	Permitted if substantial economic effect
E. Character of Income/ Deductions	No flow-through to shareholders	Flow-through to shareholders	Flow-through to individual	Flow-through to partners	Flow-through to members
F. Net Operating Losses	No flow-through to shareholders	Flow-through to shareholders (limited to basis)	Flow-through to individual	Flow-through to partners (limited to basis)	Flow-through to members (limited to basis)
G. Net Capital Losses	No flow-through, but five year carry forward	Flow-through to shareholders	Flow-through to individual	Flow-through to partners	Flow-through to members
H. Effect of Statutory Limitations	Imposed at corporate level	Imposed at shareholder level	Imposed at individual level	Imposed at partner level	Imposed at member level
III. <u>Owner Compensation Arrangements</u>					
A. Fringe Benefits	Shareholder-officers qualify for benefits	Shareholder officers qualify for benefits (medical premiums for greater than 2% shareholders treated like partnership guaranteed payments)	Generally subject to limits applicable to individuals	Limited participation for partners	Limited participation for members
B. Retirement Benefits	Shareholder-officers included in qualified plans	Certain limits on shareholder-officers	Generally subject to limits applicable to individuals	Certain limits applicable to partners	Certain limits applicable to members
C. Reasonable Compensation Limits	Applicable to shareholder-officers	Applicable to shareholder-officers	N/A	Applicable where capital is a material factor	Applicable where capital is a material factor
D. Payroll Taxes	Shareholder-officers subject to payroll taxes only on compensation	Shareholder-officers subject to payroll taxes only on compensation	Active owner subject to SE taxes on all income. No SUTA or FUTA.	Active general partner subject to SE taxes on all income. No SUTA or FUTA.	Active member subject to SE taxes on all income. No SUTA for FUTA.

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
<u>IV. Transactions with Owners</u> A. Distributions of Cash B. Distribution of Property C. Purchase of Owner's Interest 1. Partial Interest 2. Entire Interest D. Property Sales to Entity by Owner E. Property Sales to Owner by Entity	Dividends to extent of earnings and profits Dividend treatment; gain recognition to entity Probable dividend treatment Capital gain treatment with exceptions Possible dividend treatment or contributions to capital Possible dividend treatment or contributions to capital	Dividends, generally no effect until the accumulated adjustment account (AAA) fully recovered (beware transition rules for former C corps) Gain recognition to entity Tax-free, but gain for proceeds in excess of basis Capital gain treatment after basis recovered Any excess value treated as distribution or contribution Any excess value treated as distribution or contribution	No effect No effect Treated as sale of each asset Cannot sell entity interest; sale of business is viewed as a sale of each asset N/A N/A	No effect except in calculation of basis No gain or loss to entity Capital gain treatment, except ordinary income for ordinary income assets. Capital gain treatment, except ordinary income for ordinary income assets and certain §736 payments Any excess value treated as distribution or contribution Any excess value treated as distribution or contribution	No effect except in calculation of basis No gain or loss to entity Capital gain treatment, except ordinary income for ordinary income assets. Capital gain treatment, except ordinary income for ordinary income assets and certain §736 payments Any excess value treated as distribution or contribution Any excess value treated as distribution or contribution
<u>V. Termination of Entity or Owner Interest</u> A. Sale of Interest by Owner to Third Person B. Death of Owner	Capital gain; no effect on basis of corporation's assets Estate continues as shareholder; FMV at date of death is basis for shares; no effect on basis of corporation's assets	Capital gain; no effect on basis of corporation's assets Estate continues as shareholder; FMV at date of death is basis for shares; no effect on basis of corporation's assets	Cannot sell entity interest; sale of business is viewed as a sale of each asset Estate takes over business	Capital gain subject to § 751 ordinary income categorization Estate as partner subject to agreement, FMV at date of death basis for interest	Capital gain subject to § 751 ordinary income categorization Estate as member subject to agreement, FMV at date of death is basis for interest

Applicable Factor	C Corporation	S Corporation	Sole Proprietor	Partnership/Limited Liability Partnership	Limited Liability Company
C. Liquidation Distributions	Gain recognition if appreciated property distributed	Gain recognition if appreciated property distributed	N/A	No gain recognition on asset distributions	No gain recognition on asset distributions
	Capital gain on excess value received over basis	Capital gain on excess value received over basis	N/A	Substituted basis in assets equal to basis in partnership interest	Substituted basis in assets equal to basis in LLC interest
D. Reorganization	Tax-free to shareholders if qualifying under reorganization provisions (§ 354 and § 368)	Tax-free to shareholders if qualifying under reorganization provisions (§ 354 and § 368)	N/A	No taxability on merger of partnerships	No taxability on merger of LLC
E. Carryover of Tax Attributes	Carryover of tax attributes to successor entity if tax-free reorganization	Carryover of tax attributes to successor entity if tax-free reorganization	N/A	N/A	N/A

USE OF THE S CORPORATION SHAREHOLDER BASIS SCHEDULE

The shareholder basis schedule is a tool to assist the tax practitioner in determining a shareholder's basis in any given year.

Basis will determine how much loss a shareholder can recognize on his or her individual return. Losses can be used to the extent of basis in capital as well as basis in loans from the shareholder to the corporation. Capital basis should be monitored when anticipating a loss pass-through to the shareholder and when distributions are planned. Generally, distributions will be nontaxable to the shareholders up to their individual capital basis unless the corporation has earnings and profits from either operating as a C corporation, operating as an S corporation prior to 1983, or from a merger with another corporation that had earnings and profits. If the capital basis and earnings and profits are exhausted, distributions become taxable as capital gain distributions.

Loan basis is important not only because of its impact on loss pass-through, but because repayments of shareholder loans can, and often do, produce taxable income to the shareholder. The IRS position is that income from loan repayment is calculated on a ratio of loan basis to book value at the time of loan repayment. Basis in loans is rebuilt by income recognized by the shareholder. This is only for losses that reduced loan basis during taxable years beginning after December 31, 1982.

NOTE—This basis schedule assumes an election has been made to decrease basis by the ordinary loss or other item of loss or deduction and depletion before decrease by nondeductible noncapital expenses. When the election is made, final regulations require nondeductible expenses and depletion in excess of basis to be carried forward and reduce basis in succeeding taxable years.

NOTE— The stepped up basis in the stock in an S corporation acquired from a decedent must be reduced by the extent to which the value of the stock is attributable to items consisting of income in respect of a decedent. This basis rule is comparable to the present-law partnership rule. This provision applies with respect to decedents dying after August 21, 1996.

S CORPORATION SHAREHOLDER BASIS SCHEDULE

Shareholder Name _____ Year Ended _____

Corporation Name _____

	Dates New Shares Acquired/Disposed ⁽¹⁾		
# Shares at beginning of year			
# Shares acquired during the year			
# Shares disposed of during the year			
# Shares at end of year			

	<u>STOCK</u>	<u>LOANS</u>
Basis at beginning of year ⁽¹⁾	_____	_____
PLUS		
Non-separately stated income	_____	
Separately stated income items	_____	
Nontaxable income, not including book/tax timing differences	_____	
50% of ITC recapture	_____	
New loans to S corporation		_____
Additional stock/paid-in capital investment	_____	
PLUS		
Gain recognized for non-dividend distributions in excess of basis	_____	
Gain recognized on debt repayment in excess of basis		_____
MINUS		
Loan repayments to shareholder		(_____)
Non-dividend distributions	(_____)	
Basis for current year loss	_____ ⁽²⁾	
MINUS		
Non-separately stated loss	(_____)	(_____)
Separately stated losses and deductions	(_____)	(_____)
Prior year(s) loss carryover utilized in current year	(_____)	(_____)
Nondeductible expenses, not including book/tax timing differences ⁽³⁾	(_____)	
Depletion adjustment ⁽³⁾		
Remaining basis	_____	
Net increase for the year ⁽⁴⁾	_____	_____
Basis at end of year	_____ ⁽¹⁾	

S CORPORATION SHAREHOLDER BASIS SCHEDULE

CARRYOVER LOSSES

Balance at beginning of year

Additional excess losses

Prior year(s) carryover used in current year

Balance at end of year

Deductible	Nondeductible	Total
()	()	()

⁽¹⁾ Basis in stock is calculated on a per share/per day basis. Each block of stock must be accounted for separately. Special rules apply if one block of stock has an excess negative adjustment. See final regulations.

⁽²⁾ Basis cannot be less than zero. Any unused losses and deductions should be reflected on the attached schedule of carryover losses.

⁽³⁾ This basis schedule assumes the shareholder made the election to decrease basis by ordinary loss or other item of loss or deduction and depletion before decrease by nondeductible, noncapital expenses. When the election is made, final regulations require nondeductible expenses and depletion in excess of basis to be carried forward and reduce basis in succeeding taxable years.

⁽⁴⁾ Net increase for the year represents the excess of all increases to basis because of income and net of all decreases for deductible and nondeductible losses and distributions.

Final regulations are silent as to the carryover of nondeductible items when the election is not made, but presumably these items are not carried forward.

PASSIVE ACTIVITY CHECKLIST
2004

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

Individuals, trusts, estates, personal service corporations, and closely held corporations are subject to passive activity rules. Limitations on losses or credits from activities operated by partnerships (including LLCs) and S corporations are applied at the level of the partners and shareholders.

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) ACTIVITIES			
101) Account for all activities.	_____	_____	_____
102) Determine that all activities are grouped according to appropriate economic unit based on facts and circumstances:			
.1) Similarities and differences in types of business.	_____	_____	_____
.2) Extent of common control.	_____	_____	_____
.3) Extent of common ownership.	_____	_____	_____
.4) Geographic location.	_____	_____	_____
.5) Interdependencies between activities.	_____	_____	_____
103) For rental activities consider that:			
.1) A rental activity may not be grouped with a trade or business activity unless one activity is insubstantial in relation to the other. Note "same proportionate ownership" exception. (Reg. § 1.469-4 (d)(1))	_____	_____	_____
.2) An activity involving the rental of real property and an activity involving the rental of personal property (other than personal property provided in connection with the real property) cannot be treated as a single activity.	_____	_____	_____
104) Consider the six exceptions to the definition of "rental activity". (Reg. §1.469-1T(e)(3)(ii))	_____	_____	_____
105) Consider the exception for taxpayers who are real estate professionals. (§ 469(c)(7))	_____	_____	_____
.1) Determine if the taxpayer satisfies the tests in Reg. § 1.469-9(c).	_____	_____	_____
.2) Determine the taxpayer's real property trade or businesses.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST
2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Determine whether election to treat all rental real estate activities as a single activity should be or has been made. (Reg. § 1.469-9(g))	_____	_____	_____
106) Consider that aggregation elections made under Reg. § 1.469-4T(k)(3) may no longer be applicable/binding/appropriate.	_____	_____	_____
107) Consider whether the grouping of activities is consistent with prior year unless the original grouping was clearly inappropriate, subject to the § 469(c)(7) rules, or there has been a material change in facts and circumstances. (Reg. § 1.469-4(e))	_____	_____	_____
108) Consider that taxpayers who are limited partners in activities described in § 465(c)(1) may not group that activity with any other activity except as provided in Reg. § 1.469-4(d)(3).	_____	_____	_____
109) Consider that partnerships and S corporations must group their activities in accordance with Reg. §§ 1.469-4(d) and 1.469-9(h).	_____	_____	_____
110) Consider that partners and S corporation shareholders must group activities from various flow-through entities and directly conducted activities in accordance with the rules of Reg. §§ 1.469-4(d)(5) and 1.469-9(h).	_____	_____	_____
111) Determine if any activity is specifically excluded from the definition of “passive activity” (e.g., trading in personal property, or a working interest in oil and gas property owned directly or through an entity that does not limit taxpayer’s liability).	_____	_____	_____
112) Consider whether an activity involving rental of the taxpayer’s residence during the taxable year should be excluded from the passive loss rules.	_____	_____	_____
113) Determine if an activity is subject to the “publicly traded partnership” rules, and report separately.	_____	_____	_____
114) Determine if Form 8582 is required.	_____	_____	_____
200) PORTFOLIO INCOME			
201) Separate portfolio income from passive income or loss.	_____	_____	_____
202) Separately state expenses that are clearly and directly allocable to portfolio income.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST

2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
203) Review for self-charged interest. If self-charged interest is present:			
.1) Consider whether the taxpayer's interest income should be recharacterized as passive activity income.	_____	_____	_____
.2) Determine if the pass-through entity generating the self-charged interest elected out of the self-charged interest rules.	_____	_____	_____
300) SPECIAL RULES FOR C CORPORATIONS			
301) If taxpayer is a C corporation, determine if it is a closely held corporation or a personal service corporation subject to the passive loss limitations.	_____	_____	_____
302) If taxpayer is a closely held C corporation, calculate its net active business income.	_____	_____	_____
303) If taxpayer is a corporation which is a member of an affiliated group of corporations filing a consolidated return, determine:			
.1) The status (personal service, closely held) and participation in passive activities for the group as if it were a single taxpayer; and	_____	_____	_____
.2) Net passive income or loss is calculated on a consolidated basis, if applicable.	_____	_____	_____
400) MATERIAL PARTICIPATION (OTHER THAN A RENTAL ACTIVITY)			
401) Determine if the taxpayer satisfied any of the seven tests for material participation contained in Reg. § 1.469-5T(a).	_____	_____	_____
402) If taxpayer is a limited partner, consider applying the exceptions to qualify for material participation.	_____	_____	_____
403) Determine that the material participation tests for a partner or S corporation shareholder are applied at the ultimate taxpayer level, using the taxable year of the pass-through entity.	_____	_____	_____
404) Determine that participation of spouses (eligible to file a joint return) is combined for the above tests.	_____	_____	_____
405) If taxpayer is a closely held C corporation or personal service corporation, determine if shareholders owning more than 50% of its stock in the aggregate each materially participated in the activity.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST
2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
406) If taxpayer is a closely held C corporation, consider the alternative test for material participation based on employees and business expenses (§ 469(h)(4)(B)).	_____	_____	_____
500) ACTIVE PARTICIPATION BY AN INDIVIDUAL IN RENTAL REAL ESTATE ACTIVITY			
501) Consider the \$25,000 special allowance for rental real estate losses and credits.	_____	_____	_____
502) Determine that under the \$25,000 special allowance rule, the taxpayer actively participated both in the year the loss arose and the year in which the loss is allowed.	_____	_____	_____
503) Consider the special allowance for the rehabilitation credit and the low-income housing credit from rental real estate activities—note that active participation is not required for these credits.	_____	_____	_____
600) DISPOSITIONS			
601) Determine if the taxpayer disposed of, in a fully taxable transaction, his entire interest in a passive activity to an unrelated party at arm's length, or as a full abandonment of the entire interest. If so:			
.1) Consider the rules for the disposition of an interest in a passthrough entity.	_____	_____	_____
.2) After considering ordering rules, deduct in full any loss allocable to such activity including suspended losses from prior years.	_____	_____	_____
.3) Consider the suspended loss utilization rules for the installment sale of an entire interest.	_____	_____	_____
602) Consider Reg. § 1.469-4(g) regarding a disposition of substantially all of an activity. Determine with reasonable certainty:			
.1) The amount of prior deductions and credits disallowed under passive rules allocable to the disposed activity; and	_____	_____	_____
.2) The amount of gross income and deductions allocable to the disposed activity.	_____	_____	_____
603) Consider the treatment of suspended losses in dispositions characterized as nontaxable exchanges.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST
2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
604) At death of taxpayer, deduct suspended losses to the extent such losses exceed the amount by which the activity's basis is increased pursuant to § 1014.	_____	_____	_____
605) For gifts of an interest in a passive activity, determine that the donee's basis of a passive activity interest has been increased by the amount of any related suspended losses, limited to fair market value. Note that the donor may not claim the suspended losses.	_____	_____	_____
606) For pre-1987 installment sales, consider whether post-1986 gain recognized is eligible to be treated as passive income.	_____	_____	_____
607) Determine ability to deduct passive credits. Note that although credits are not "freed-up" on disposition, the taxpayer may make an election to increase basis. (§ 469(j)(9))	_____	_____	_____
608) For a C corporation that has converted to S corporation status, consider whether there are any disallowed passive losses from a C corporation years that can be carried over to the initial S corporation tax year. See <u>St. Charles Investment Company</u> CA-10, 2002-2 USTC ¶50,840, REV'g, 110 T.C. 46.	_____	_____	_____
700) SPECIAL CHARACTERIZATION OF INCOME RULES			
701) Determine if gain from the disposition of an interest in an activity is passive in the year of disposition (12-month rule). Note special rules for dealers.	_____	_____	_____
702) Determine the character of gain on the disposition of substantially appreciated property formerly used in a nonpassive activity.	_____	_____	_____
703) Determine if net income from property rented for use in a trade or business activity in which the taxpayer materially participated (including partnership, S corporation, and C corporation) for the taxable year is treated as nonpassive income. Note exception for leases prior to February 19, 1988. (Reg. § 1.469-2(f)(6))	_____	_____	_____
704) Consider whether net income from the rental of substantially non-depreciable property (less than 30% of basis is subject to depreciation) must be recharacterized as not from a passive activity.	_____	_____	_____
705) If the activity is a significant participation activity with net income, but not a material participation activity, determine whether a ratable portion of the activity's net income must be recharacterized as not from a passive activity.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST
2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
706) If the activity involves the lending of money, consider the "equity-financed lending activity" rule. (Reg. § 1.469-2T(f)(4))	_____	_____	_____
707) Determine if net royalty income from intangible property held by a passthrough entity should be treated as nonpassive royalty income. (Reg. § 1.469-2T(f)(7))	_____	_____	_____
708) Determine if the "developer rule" requires the gain on the sale of rental property to be recharacterized as nonpassive income.	_____	_____	_____
709) Determine if distributions in excess of basis from partnerships and S corporations can be characterized as income from a passive activity. (Rev. Rul. 95-5)	_____	_____	_____
710) Determine if discharge of indebtedness income can be characterized as income from a passive activity. (Rev. Rul. 92-92)	_____	_____	_____
711) Determine if the taxpayer has carryforward losses from a former passive activity that can offset active income from the same activity.	_____	_____	_____
800) OTHER PASSIVE ACTIVITY RULES			
801) Determine that other provisions limiting the deductibility of items, such as § 465 at-risk provisions, § 704(d) and § 1366(d) basis limitations, have been considered before applying the passive loss rules.	_____	_____	_____
802) For each passive activity, combine the passive income and passive losses for that activity to determine net passive income or loss for the activity.	_____	_____	_____
803) Consider the passive loss limitations for purposes of the alternative minimum tax.	_____	_____	_____
804) Determine if there are carryovers of passive losses or credits per activity for both regular tax and AMT purposes.	_____	_____	_____
805) Consider that suspended pre-1987 losses as a result of at-risk or basis limitations that may be claimed are not subject to § 469 limitations.	_____	_____	_____
806) If a casualty or theft loss was incurred, determine if it is subject to a § 469 limitation.	_____	_____	_____

PASSIVE ACTIVITY CHECKLIST
2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
807) Subject credits from passive activities to the applicable limitations for such credits; generally such credits may not offset taxes other than taxes related to net passive income.	_____	_____	_____
808) Allocate disallowed passive loss ratably among the taxpayer's passive activities having net losses for the taxable year and prepare a carryforward schedule.	_____	_____	_____
809) Consider special passive activity rules for estates and trusts.	_____	_____	_____

COMMENTS OR EXPLANATIONS

ESTATE TAX WORK PAPER PROCEDURES AND ORGANIZATION

To facilitate the preparation, checking and review of estate tax returns, the following procedures should be observed, where applicable.

1. Originals of items to be attached to the return should be kept in a separate folder until the return is processed.
2. An estate tax checklist and organizer should be completed for every return.
3. The items in the return should be cross-referenced from final draft to workpapers.
4. The following system should be used to index the estate tax return workpapers:

<u>Index</u>	<u>Description</u>
--------------	--------------------

Section A—Return, legal documents, general information, etc.

- | | |
|----|---------------------------------------|
| 1 | Proof copy |
| 2 | Final draft |
| 3 | Elections and supporting calculations |
| 4 | Extension calculations |
| 5 | Estate tax checklist |
| 6 | Death certificate |
| 7 | Will, letters testamentary |
| 8 | Trust agreement |
| 9 | Probate inventory |
| 10 | Appraisals |
| 11 | Tax research |
| 12 | Postmortem planning |

Section B—Schedule reconciliation workpapers

- | | |
|-----|--|
| A | Real estate |
| A-1 | Section 2032A Valuation |
| B | Stocks and bonds |
| C | Mortgages, notes and cash |
| D | Life insurance on decedent's life |
| E | Jointly owned property |
| F | Miscellaneous property |
| G | Transfers during decedent's life |
| H | Powers of appointment |
| I | Annuities and retirement benefits |
| J | Funeral and administration expenses |
| K | Debts of decedent, mortgages and liens |
| L | Net losses during administration |
| M | Bequests to surviving spouse |
| N | Qualified ESOP sales |
| O | Charitable bequests |
| P | Credit for foreign death taxes |
| Q | Credit for tax on prior transfers |
| R | Generation-skipping transfers |

ESTATE TAX WORK PAPER PROCEDURES AND ORGANIZATION

5. Separate files should be used for correspondence, tax returns, client accounting, payroll and probate matters. A complete copy of the estate tax return with all attachments should be retained in the file.
6. Generally, formal books and/or balancing workpapers should be maintained to facilitate the accounting for bases, income, deductions and distributions.

GENERATION-SKIPPING TRANSFER TAX SUPPLEMENT

Used in conjunction with the Form 706 and Form 709 Checklists, the sample paragraphs in this section were designed to help the practitioner plan and document engagements dealing with the generation skipping transfer tax consequences of making gifts.

The sample transmittal letter (for timely or late allocation), sample notice of late allocation of GST exemption, and sample GST exemption allocation language are meant to provide a basic framework for communicating with your client and the IRS.

SAMPLE NOTICE OF LATE ALLOCATION OF GST EXEMPTION

Pursuant to § 2631 of the Internal Revenue Code of 1986, as amended, the taxpayer allocates to each trust described above the smallest amount of the taxpayer's GST exemption necessary to produce an inclusion ratio (as defined in § 2642(a) of the Internal Revenue Code of 1986, as amended) for the trust that is closest to or, if possible, equal to zero. The taxpayer intends this late allocation to be effective as of [insert date: mm/dd/yy], the date on which this Notice of Allocation has been filed with the Internal Revenue Service.¹

Based on the value(s) reported and § 2642(b)(3) of the Internal Revenue Code of 1986, as amended, the total amount allocated pursuant to this Notice of Late Allocation is \$[insert amount] and the inclusion ratio for each trust is [insert ratio]. This is a formula allocation that will change if values are changed on audit.

No GST exemption has been previously allocated to these trusts.² Gifts were made to these trusts on [insert date: mm/dd/yy or (in 200x)] of \$[insert amount]. The trusts consist of the assets and their respective values listed on the attached Schedule [insert] as of the effective date of this Notice of Late Allocation.

¹ **Optional Language:** The taxpayer elects pursuant to Reg. sec. 26.2642-2(a)(2) to treat the allocation as if made on the first day of the month. For purposes of this election, the applicable valuation date for this allocation is [insert date: mm/01/yy].

² **Optional Language:** GST exemption has been previously allocated to these trusts. Gifts were made to these trusts on [insert date: mm/dd/yy or (in 19xx)] of \$[insert amount] and GST exemption was allocated as follows: [insert details]. The trusts consist of the assets and their respective values listed on the attached Schedule [insert] as of the effective date of this Notice of Late Allocation.

SAMPLE GST EXEMPTION ALLOCATION LANGUAGE

Notice of Allocation of GST Exemption—Form 709

Pursuant to § 2631 of the Internal Revenue Code of 1986, as amended, the taxpayer allocates to each trust described above the smallest amount of the taxpayer's GST exemption necessary to provide an inclusion ration (as defined in § 2642(a) of the Internal Revenue Code of 1986, as amended) for the trust that is closest to you, if possible, equal to zero.

Based on the value(s) reported in connection with item(s) [insert] above, and § 2642(b)(1) of the Internal Revenue Code of 1986, as amended, this allocation will result in \$[insert amount] of GST exemption being allocated and an inclusion ratio of [insert ratio]. This is intended to be a formula allocation which will change if values are adjusted on audit.

SAMPLE TRANSMITTAL LETTER LANGUAGE

Option 1—Timely Allocation

We have discussed with you the generation-skipping transfer tax consequences of the gifts reported on this return and the options available to allocate your exemption to these gifts, to not allocate, or to make a late allocation. You have indicated that you wish to allocate \$*[insert amount]* of your generation-skipping transfer tax exemption to the *[insert Trust]* on this gift tax return. The allocation is effective upon filing with the Internal Revenue Service and is based upon the value of the assets at the time of the gift. Once this return is filed, the allocation is irrevocable and may not be changed. *{If no allocation is made: It is important you understand that while it may be possible to make an allocation in the future, the tax consequences of doing so may differ significantly from the consequences of making an allocation at this time.}*

Option 2—Late Allocation

We have discussed with you that this return makes a late allocation of your generation-skipping transfer tax exemption to prior gifts. You have indicated that you wish to allocate \$*[insert amount]* of your generation-skipping transfer tax exemption to the *[insert Trust]* on this gift tax return. As a late allocation of your exemption, the allocation is effective upon filing with the Internal Revenue Service and is based upon the value of the assets at that time. Once this return is filed, the allocation is **irrevocable** and may not be changed.

DIVORCE ISSUES CHECKLIST

Client Name and Number: _____
Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

For comprehensive planning of divorce issues, the complete checklist should be reviewed.

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) If existing client, determine which party to represent.	_____	_____	_____
.1) Disclose conflict of interest.	_____	_____	_____
.2) Consider obtaining signed waiver.	_____	_____	_____
102) Consider:			
.1) Signed engagement letter.	_____	_____	_____
.2) Power(s) of Attorney (Form 2848).	_____	_____	_____
103) Provide client with a privacy disclosure notice.	_____	_____	_____
104) Review client tax returns.	_____	_____	_____
105) Determine the status of divorce proceedings.	_____	_____	_____
106) Document date of divorce or separation.	_____	_____	_____
107) Identify legal counsel.	_____	_____	_____
108) Obtain permission for communication with legal counsel.	_____	_____	_____
109) Review pre-nuptial agreement.	_____	_____	_____
110) Determine if there is any temporary support.	_____	_____	_____
111) If change of address, file Form 8822 with IRS.	_____	_____	_____
112) If change of name:			
.1) File Form SS-5.	_____	_____	_____
.2) Obtain copy of new Social Security cards.	_____	_____	_____
113) Obtain Social Security number and address of other spouse.	_____	_____	_____
114) If either spouse resided in a community property state during the marriage, consider community property tax issues.	_____	_____	_____

DIVORCE ISSUES CHECKLIST

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
200) PRE-DIVORCE CONSIDERATIONS			
201) Consider filing status alternatives.	_____	_____	_____
202) Consider the potential for a different filing status for state purposes.	_____	_____	_____
203) For Married Filing Jointly:			
.1) Consider effect of joint liability for taxes owed.	_____	_____	_____
.2) Determine responsible party for payment of taxes.	_____	_____	_____
.3) Determine which spouse received tax refund(s).	_____	_____	_____
.4) Determine allocation and reporting of tax refund(s).	_____	_____	_____
.5) Determine address to use on returns.	_____	_____	_____
.6) Document responsible party for providing tax information.	_____	_____	_____
.7) Determine procedure for obtaining signatures.	_____	_____	_____
204) Consider if taxpayer qualifies for Single filing status.	_____	_____	_____
205) For Married Filing Separately and Head of Household:			
.1) Determine if taxpayer qualifies for Head of Household.	_____	_____	_____
.2) If qualifies for Head of Household, consider tax implications to other spouse.	_____	_____	_____
.3) Determine impact of filing status on deductions and credits.	_____	_____	_____
.4) Determine eligibility to claim dependent exemptions.	_____	_____	_____
.5) Consider income limitation phaseouts.	_____	_____	_____
.6) Determine reporting of joint income items.	_____	_____	_____
.7) Consider standard vs. itemized deductions (same on both returns).	_____	_____	_____
.8) If itemizing, determine who will claim deductions.	_____	_____	_____
.9) Determine TIN that mortgage interest is reported under. (Attach statement to return.)	_____	_____	_____
.10) Consider "kiddie tax" implications.	_____	_____	_____

DIVORCE ISSUES CHECKLIST

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.11) Determine allocation of estimated taxes made jointly. (Attach statement to return.)	_____	_____	_____
.12) Consider filing amended return(s) to file Married Filing Jointly.	_____	_____	_____
206) Consider if closely-held businesses will require valuations.	_____	_____	_____
207) Consider gift tax implications.	_____	_____	_____
208) Determine the need for a Qualified Domestic Relations Order (QDRO) for retirement plan(s), including Individual Retirement Plans (IRA):	_____	_____	_____
.1) Consider payment to child or dependent (taxable to participant).	_____	_____	_____
.2) Consider payment to spouse under one of the following:			
(a) Lump-sum (taxable).	_____	_____	_____
(b) Rollover.	_____	_____	_____
209) Consider IRA deduction based on alimony income.	_____	_____	_____
300) POST-DIVORCE CONSIDERATIONS			
301) Review:			
.1) Divorce decree or separation agreement.	_____	_____	_____
.2) Property settlement agreement.	_____	_____	_____
.3) Child support agreement.	_____	_____	_____
.4) Any interim agreements.	_____	_____	_____
302) Document procedure for obtaining information.	_____	_____	_____
303) Determine reporting of joint income items.	_____	_____	_____
304) Review changing account ownership names and TIN (Form W-9).	_____	_____	_____
305) Determine eligibility to claim itemized deductions.	_____	_____	_____

DIVORCE ISSUES CHECKLIST

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
306) Determine TIN for mortgage interest reported. (Attach statement to return.)	_____	_____	_____
307) Review timing of potential residence sale(s).	_____	_____	_____
308) Review timing of other asset sales.	_____	_____	_____
309) For prior year tax liabilities:			
.1) Consider filing for Relief of Liability: (Form 8857)			
(a) Separation of liability.	_____	_____	_____
(b) Innocent spouse/equitable relief.	_____	_____	_____
.2) Consider impact of divorce on tax refunds. (Form 8379)	_____	_____	_____
310) For dependent exemptions:			
.1) Determine custodial parent.	_____	_____	_____
.2) Review decree of agreement.	_____	_____	_____
.3) Determine physical custody.	_____	_____	_____
.4) Obtain children's birthdates.	_____	_____	_____
311) For noncustodial parent:			
.1) Obtain one of the following:			
(a) Signed Form 8332 (Consider multiple-year agreement).	_____	_____	_____
(b) From decree, signed declaration for Post-1984 divorce, if applicable.	_____	_____	_____
(c) From decree, signed declaration for Pre-1985 divorce, if > \$600 annual support.	_____	_____	_____
.2) Attach appropriate form/document to return(s).	_____	_____	_____
312) Consider impact on available tax credits, such as child care, higher education, earned income, child tax credit, etc.	_____	_____	_____
313) Consider "kiddie tax" implication.	_____	_____	_____
314) Consider exemption phaseout limitations.	_____	_____	_____

DIVORCE ISSUES CHECKLIST

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
315) For alimony and child support paid or received:			
.1) Review decree or agreement.	_____	_____	_____
.2) Determine if alimony payments qualify (post-1984).	_____	_____	_____
.3) Consider implications of state tax law.	_____	_____	_____
.4) Determine if underpayments exist (child support considered paid first).	_____	_____	_____
316) Consider other payments qualifying as alimony:			
.1) Payments directly to third parties.	_____	_____	_____
.2) Payments on jointly owned house.	_____	_____	_____
.3) Life insurance premiums with incidence of ownership.	_____	_____	_____
317) Consider impact on federal and state withholding or estimated taxes.	_____	_____	_____
318) Determine if alimony recapture applies (if applicable, write "Recapture" on return).	_____	_____	_____
319) For property settlement, obtain or prepare schedule of assets received and consider:			
.1) One-year and six-year rules.	_____	_____	_____
.2) Payments going directly to third parties.	_____	_____	_____
.3) Payments going to trust (income recognition if installment sale contract put in trust).	_____	_____	_____
.4) Income tax reporting issues, such as:			
(a) Income producing assets (date of transfer).	_____	_____	_____
(b) Passive activities (passive activity loss carryovers increase basis).	_____	_____	_____
(c) Stock options (recipient upon exercise).	_____	_____	_____
.5) Gift tax reporting requirements.	_____	_____	_____
.6) Need to change names on titles upon transfer.	_____	_____	_____

DIVORCE ISSUES CHECKLIST

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
320) Obtain copy of Qualified Domestic Relations Order (QDRO) for retirement plan(s), including Individual Retirement Account (IRA).	_____	_____	_____
.1) Determine if paid to child or dependent (taxable to participant).	_____	_____	_____
.2) Determine if paid to spouse under one of the following:			
(a) Lump-sum.	_____	_____	_____
(b) Rollover.	_____	_____	_____
321) Obtain a copy of plan sponsor's approval letter of the QDRO.	_____	_____	_____
322) Obtain a copy of Form(s) 1099-R related to QDRO distributions.	_____	_____	_____
323) Consider IRA deduction based on alimony income.	_____	_____	_____
400) CONSIDER THE IMPACT OF DIVORCE UPON:			
401) Health insurance coverage:			
.1) Spouse.	_____	_____	_____
.2) Children.	_____	_____	_____
402) Life insurance coverage.	_____	_____	_____
403) Disability coverage.	_____	_____	_____
404) Property and casualty coverage.	_____	_____	_____
405) Mortgages:			
.1) Qualifications.	_____	_____	_____
.2) Transfers.	_____	_____	_____
.3) Payments.	_____	_____	_____
406) Cancellation of joint credit cards and other accounts.	_____	_____	_____
407) Credit ratings.	_____	_____	_____
408) Budgeting.	_____	_____	_____

DIVORCE ISSUES CHECKLIST

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
409) Education planning:			
.1) Spouse.	_____	_____	_____
.2) Children.	_____	_____	_____
410) Beneficiary designations:			
.1) Life insurance.	_____	_____	_____
.2) Retirement plans and IRAs.	_____	_____	_____
.3) Annuities.	_____	_____	_____
.4) Trusts.	_____	_____	_____
411) Wills and estate planning.	_____	_____	_____
412) Trustee and successor trustee.	_____	_____	_____
413) Payroll withholding (Form W-4).	_____	_____	_____
500) PERTINENT DOCUMENTS			
501) Obtain copies of:			
.1) Installment sales.	_____	_____	_____
.2) Partnership agreements, K-1s.	_____	_____	_____
.3) Buy-sell agreements.	_____	_____	_____
.4) Bank statements.	_____	_____	_____
.5) Brokerage statements.	_____	_____	_____
.6) Mutual fund statements.	_____	_____	_____
.7) Notes receivables.	_____	_____	_____
.8) Retirement plan booklets and statements.	_____	_____	_____
.9) Insurance policies – auto, home, disability, life, etc.	_____	_____	_____
.10) Loan documents – mortgage, auto, etc.	_____	_____	_____

DIVORCE ISSUES CHECKLIST

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.11) Credit card bills.	_____	_____	_____
.12) Wills.	_____	_____	_____
.13) Trust agreements.	_____	_____	_____
.14) Tax returns.	_____	_____	_____
502) Note tax planning/additional service suggestions See <i>Client Review for Additional Services</i> .	_____	_____	_____

COMMENTS OR EXPLANATIONS

E-FILE-CHECKLIST
INDIVIDUAL INCOME TAX RETURN
2004 – FORM 1040

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION			FILING FORM 8879 (NOT MAILED)		
1. Confirm names and Social Security numbers of taxpayer, spouse and dependents as they appear on their social security cards.	_____	_____	1. Taxpayers filing returns with ineligible attachments must use Form 8453.	_____	_____
2. Confirm current address.	_____	_____	2. Run validation, create and print e-file return(s).	_____	_____
3. Obtain dates of birth for taxpayer, spouse and dependents.	_____	_____	3. Provide taxpayer complete Federal and state return(s) including Form 8879 and state consent form(s).	_____	_____
4. Obtain copies of w-2s, w-2Gs, and 1099Rs.	_____	_____	4. Obtain signed Form 8879 with selected PIN and state consent form(s).	_____	_____
5. Obtain checking account information for direct deposit and direct payments: a. Routing transit number	_____	_____	5. Transmit e-file return(s).	_____	_____
b. Account number	_____	_____	6. Confirm IRS and state(s) acceptances.	_____	_____
c. Account type (checking/savings)	_____	_____	7. Retain copies of signed Form 8879 and state consent form(s) for three years.	_____	_____
6. Obtain credit card type, account number, expiration date, and name on the card for credit card payments.	_____	_____	FILING FORM 8453 (MAILED)		
DATA INPUT			1. Run validation, create and print e-file return(s).	_____	_____
1. Set up completed as e-file return including states.	_____	_____	2. Provide taxpayer complete Federal and state return(s) including Form 8453 and state consent form(s).	_____	_____
2. Enter payer name and address, EIN and state shown on each W-2, W-2G, and 1099R	_____	_____	3. Obtain signed Form 8453 and state consent form(s).	_____	_____
3. Enter taxpayer address shown on each W-2, W-2G, and 1099R	_____	_____	4. Transmit e-file return(s).	_____	_____
4. Check "nonstandard form" box for each W-2, W-2G and 1099R that is hand written or altered.	_____	_____	5. Confirm IRS and state(s) acceptances.	_____	_____
5. Input direct deposit account information for refund.	_____	_____	6. Attach any required schedules to signed Form 8453 and state consent form(s).	_____	_____
6. Input direct debit information with debit amount and date for direct payment of taxes due.	_____	_____	7. Mail signed Form 8453 and applicable state consent form(s) with attachments within 3 days of acceptance.	_____	_____
7. Input any additional state e-file data	_____	_____	REJECTIONS		
			1. Review rejection(s) and make corrections.	_____	_____
			2. Resubmit return.	_____	_____
			3. Confirm IRS and/or state(s) acceptance.	_____	_____
			4. If ineligible for e-file, inform taxpayer within 24 hours and provide paper return(s) to taxpayer for filing.	_____	_____

E-FILE-CHECKLIST
CORPORATE INCOME TAX RETURN
2004 – FORM 1120/1120S

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
<div style="border: 1px solid black; padding: 2px; display: inline-block;">GENERAL INFORMATION</div>			<div style="border: 1px solid black; padding: 2px; display: inline-block;">FILING FORM 8453-C or 8453-S [REQUIRED FOR NON-EROs & INTERMEDIATE SERVICE PROVIDERS]</div>		
1. Confirm the business' name and employer identification number (EIN) of the corporation, as they appear on the existing IRS records.	_____	_____	1. Run validation, create and print e-file return(s).	_____	_____
2. Confirm the taxpayer's current address.	_____	_____	2. Provide the taxpayer with complete Federal return, including Form 8453-C or 8453-S and state(s) consent form(s).	_____	_____
3. Obtain bank account information for direct deposit and electronic funds withdrawal direct payments:			3. Obtain signed Form 8453-C or 8453-S and state(s) consent form(s).	_____	_____
a. Routing transit number	_____	_____	4. Scan signed Form 8453-C or 8453-S into a PDF document and insert into the electronic return as an attachment names "8453 Signature Document."	_____	_____
b. Account number	_____	_____	5. Transmit the e-file return(s).	_____	_____
c. Account type (checking/savings)	_____	_____	6. Confirm IRS and state(s) acceptances.	_____	_____
4. Obtain credit card type, account number, expiration date, and name on card for credit card payments.	_____	_____			
<div style="border: 1px solid black; padding: 2px; display: inline-block;">DATA INPUT</div>			<div style="border: 1px solid black; padding: 2px; display: inline-block;">REJECTIONS</div>		
1. Set up completed tax return as an e-file return in tax preparation software.	_____	_____	1. Review rejection(s) and make corrections.	_____	_____
2. Input direct deposit account information for refund.	_____	_____	2. Resubmit return.	_____	_____
3. Input direct debit information with debit amount and date for direct payment of taxes due.	_____	_____	3. Confirm IRS and/or state(s) acceptances.	_____	_____
4. Attach required documentation (e.g., signatures, third party documents) in PDF format as provided by the forms and instructions.	_____	_____	4. If ineligible for e-file, inform the taxpayer within 24 hours and provide paper return(s) to taxpayer for filing.	_____	_____
5. Input any additional state e-file data.	_____	_____			
<div style="border: 1px solid black; padding: 2px; display: inline-block;">FILING FORM 8879-C or 8879-S IRS PREFERRED METHOD (NOT MAILED)</div>					
1. Run validation, create and print e-file return(s).	_____	_____			
2. Provide the taxpayer with complete Federal and state return(s), including Form 8879-C or 8879-S and state(s) consent form(s).	_____	_____			
3. Obtain signed Form 8879-C or 8879-S with selected PIN and state consent form(s).	_____	_____			
4. Transmit the e-file return(s).	_____	_____			
5. Confirm IRS and state(s) acceptances.	_____	_____			
6. Retain copies of signed Form 8879-C or 8879-S and state(s) consent form(s) for three years. Do not mail or submit with the return.	_____	_____			

USE OF THE ACCRUAL BASIS TO CASH BASIS WORKSHEET

The Accrual Basis to Cash Basis Worksheet is a tool to assist the tax practitioner in computing the cash basis income in any given period. It can be used during the year to provide year-to-date cash basis income for planning opportunities.

The starting point is the accrual basis income per books. Cash basis income increases or decreases as a result of changes in the asset and liability accounts. Only accounts that impact the income statement are considered. For example, increases or decreases in loan balances will not be reflected on this worksheet.

While planning cash basis income, several planning tips should be considered. For example, for a calendar-year taxpayer, the following items may impact cash basis taxable income:

- Billing - delay current month billing (November) until mid to late December;
- Billing - delay follow-up (reminder) statements;
- Paying trade accounts payable before year-end;
- Identifying and paying expenses that will become due and payable in the first quarter of next year such as:
 - January/February/March rent;
 - January/February/March lease payments;
 - Supplies;
 - Professional dues, fees;
 - Monthly expenses for utilities, phone, etc.;
 - Recurring expenses such as library updates, etc.
- Compensation – pay bonuses prior to year-end;
- Compensation – consider paying January payroll in December (benefits employer, currently taxable to the employee);
- Adopt a qualified retirement plan for the company. It is the only accrual deductible on the return that does not have to be paid before December 31 for a cash basis taxpayer;
- Consider timing of capital expenditures to maximize § 179 deduction on the cash basis;
- Accelerate reimbursement of deductible expenses to employees.

This is not an all-inclusive list, but will help to promote discussions on tax planning techniques.

PERIOD ENDING

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Master Log Template Sample Data

	CLIENT	ENG TYPE	DUE DATE	EXT DATE	ENG LTR		DATE IN	DATE OUT /MEMO	Staff Name	PREP Time	Review #1	TCP	TOTAL FEES
					Out	In							
SUMMARY													
	DELINQUENT									60.00	15.00	4.00	\$ 8,500
	JANUARY									46.00	12.60	5.75	\$ 7,141
	FEBRUARY									97.00	20.85	7.80	\$ 13,518
	MARCH									73.50	16.45	6.30	\$ 10,839
	APRIL									71.50	18.00	7.25	\$ 9,680
										348.00	82.90	31.10	\$ 49,677

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[illegible]

2004

PRACTICE GUIDE

to

INTERNATIONAL TAX PLANNING

Prepared by:
International Tax Technical Resource Panel
AICPA TAX DIVISION

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2004 Practice Guide International Tax Planning

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NOTICE TO READERS

Tax practice guides are designed as educational and referential material for the members of the Tax Section, as well as others interested in the subject. They do not establish standards or preferred practices.

Although much thought and effort have gone into the development of these guides, they are subject to amendment. For example, some regulations related to current and prior tax acts have not yet been issued. These checklists should be revised when such new developments occur.

Accordingly, these practice guides are issued as drafts only, and you, the reader, retain responsibility for their final content. Please review them carefully and make any changes necessary for your particular use.

Members of the 2002 – 2003 and 2004-2005 AICPA International Taxation Technical Resource Panel (TRP) prepared these practice guides. The members of the Panel are listed below:

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PREFACE

Enclosed is the 2004 Practice Guide to International Tax Planning prepared by the International Taxation TRP of the AICPA Tax Division. Its purpose is to assist practitioners involved in international transactions in identifying possible tax issues and planning opportunities.

If you are a Tax Section member who indicated an interest in receiving information from the International Taxation TRP, practice guides were sent to you as part of your basic membership benefit package. If you are not a member of the Section, you may wish to join in order to expedite receipt of these guides and to take advantage of the many benefits of Section membership. Please contact Judy Smith at (202) 434-9270 if you would like information on membership.

The International Tax TRP hopes these practice guides will be helpful to you and solicits your comments for their improvement. Please submit your comments and suggestions on the enclosed form.

Introduction

This Practice Guide to International Tax Planning is intended as a reference tool to assist you in situations where U.S. taxpayers are conducting business operations abroad. The checklists should be useful in planning for such operations, and in complying with the complex U.S. tax rules relating to foreign operations of U.S. taxpayers. The checklists attempt to identify most of the common (and some of the uncommon) issues encountered when doing business abroad. The checklists are not intended as a substitute for in-depth research. Only by supplementing the checklists with appropriate research can an adequate level of planning and compliance be obtained.

[Note: Checklist 1, Forms of Doing Business, is intended to assist the user in understanding the tax implications of various forms in which to conduct international operations. Checklist 1 refers the user to other checklists so it can be used as a starting point for planning. Alternatively, each of the other checklists can be used independently.]

WARNING!

This package of practice guides was updated in the November of 2004. It does not necessarily reflect subsequent legislative, administrative or tax form changes. You may need to revise these guides accordingly.

INTERNATIONAL TAX ISSUES CHECKLIST

FORMS OF DOING BUSINESS

Note: The purpose of this checklist is to assist the user in understanding the tax implications of various forms in which to conduct international operations. This is done by identifying major issues of various forms of doing business abroad and by referring the user to more detailed checklists concerning certain specific areas of international taxation. This checklist is not intended to provide all tax issues which may be encountered when planning for international operations.

Warning: The citations contained in this checklist are primarily to the U.S. Internal Revenue Code unless otherwise noted. Additional research may be required in the related regulations thereunder.

Client Name and Number: _____
 Prepared by: _____ Date: _____
 Reviewed by: _____ Date: _____

General

The determination of the form of doing business in a foreign jurisdiction must start with the company establishing its business goals and objectives with respect to a particular foreign market. The company must consider several factors concerning the target foreign market, such as, acceptance of its product, the economies of local production versus importation, licensing the use of the product or technology to a foreign licensee versus direct sales of the product and possible restrictions on foreign persons conducting business activities in the foreign market.

If the company has determined that the target foreign market holds promise for its product, the company must then determine if it can sufficiently penetrate the market by exporting its product directly to customers or through a sales representative in the host country. On the other hand, market penetration might be easier with a presence in the host country in the form of a foreign branch or subsidiary.

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
<u>DIRECT EXPORT</u>			
1) Has the company considered the following with regard to the importation of goods into the foreign country. (See Section 2)	_____	_____	_____
.1) Whether there are customs duties or other local levies imposed by the foreign country.	_____	_____	_____
.2) Whether customs duties or other local levies may affect the company's evaluation of direct export versus other forms of doing business in the foreign country.	_____	_____	_____
.3) Whether it will be liable for collection of customs duties and any applicable value-added tax (VAT).	_____	_____	_____
.4) Whether there are advantages to registering to collect VAT under its circumstances even if it does not have a permanent establishment in the target jurisdiction.	_____	_____	_____
.5) If liable for collection of VAT or customs duties and the company has or will have a local stock of inventory, whether payment can be deferred through a bonded warehouse or proximate cross border warehouse.	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
2) Has the company considered foreign title passage to generate foreign source income to use foreign tax credits? [§863(b) and §861(a)(6)] Note: Foreign title passage is ordinarily determined by where the risk of loss is transferred. (See Section 5)	_____	_____	_____
3) Has the company considered whether its activities in a foreign country are sufficient to cause it to be taxable as a permanent establishment (e.g., a branch or the use of a dependent agent)?			
Note: Consider reviewing the permanent establishment article of the income tax treaty, if applicable with the foreign country where the activities are being conducted. (See Sections 2 and 3)	_____	_____	_____
FOREIGN BRANCH			
Note: The “Foreign Branch” and “Foreign Subsidiary” sections should be considered together if the company is attempting to assess whether a foreign branch or subsidiary is most desirable.	_____	_____	_____
4) In comparing operations as a foreign branch versus foreign subsidiary, has the company considered the greater flexibility of a foreign subsidiary in timing its repatriation of profits, (i.e., the profits of a foreign subsidiary are not taxed in the U.S. until repatriated while the profits of a foreign branch are currently taxable in the U.S.)?	_____	_____	_____
5) Has the company considered whether the activities of its foreign branch will cause it to be subject to income tax in the foreign country? Note: Consider if the branch is a permanent establishment under the tax treaty with the host country, if applicable, or under local law of the host country. (See Sections 2 and 3).	_____	_____	_____
6) Has the company considered the host country taxation of the foreign branch including (See Section 2):	_____	_____	_____
.1) Federal and local tax rates on income?	_____	_____	_____
.2) Other taxes or customs duties?	_____	_____	_____
.3) Whether losses can be carried over and if so, how long?	_____	_____	_____
.4) Whether the host country imposes a branch tax on net after-tax profit (regardless of whether it is repatriated), increasing the effective tax rate on branch profits? Note: An income tax treaty may exist to reduce the branch tax rate.	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Whether the host country allows for the allocation of home country administrative and overhead expenses or management fee to the branch to reduce host country taxable income?	_____	_____	_____
.6) Whether the host country imposes a withholding tax on the payment of home country administrative and overhead expenses or management to be charged to the branch	_____	_____	_____
7) If the company plans to incur initial losses in the foreign branch, has the company considered if the losses can be utilized in the company's U.S. tax returns?	_____	_____	_____
8) If the company contemplates sales through its foreign branch, has it considered the U.S. and host country tax implications of compensating the branch in the following forms:			
.1) Commission basis?	_____	_____	_____
.2) Buy-sell basis?	_____	_____	_____
.3) Cost-plus basis (i.e., payment to branch equal to branch expenses plus acceptable profit percentage)?	_____	_____	_____
Note: Choosing the appropriate method can allow for the use of losses and minimize foreign and U.S. taxes within the limitations of host country and U.S. transfer pricing rules.			
9) If the company plans to generate taxable income through its foreign branch, has the company considered the following concerning the use of the foreign taxes as a credit? (See Section 5):			
.1) Whether the resulting foreign income taxes can be utilized by the company as a foreign tax credit?	_____	_____	_____
.2) Whether the company has current losses, thereby precluding current use of the foreign taxes as a credit?	_____	_____	_____
.3) Whether the company has excess foreign tax credits, thereby precluding current use of the foreign taxes as a credit?	_____	_____	_____
.4) If unused foreign tax credits can be carried back to prior years or forward to future years?	_____	_____	_____
10) If the company is selling personal property through the branch, has the company considered foreign title passage to generate foreign source income to use foreign tax credits? [§863(b) and §861(a)(6)]	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
Note: Foreign title passage is ordinarily determined by where the risk of loss is transferred. (See Section 5).			
11) Has the company considered using a U.S. subsidiary to operate the foreign branch thereby segregating the company's U.S. operations from the foreign branch operations (e.g., for legal or state tax purposes)?	_____	_____	_____
12) If the company plans to transfer U.S. personnel to the foreign branch, has the company considered the tax implications relating to the transferred employees? (See Section 6).	_____	_____	_____
<u>FOREIGN SUBSIDIARY</u>			
Note: The "Foreign Subsidiary" and "Foreign Branch" Sections should be considered together if the company is attempting to assess whether a foreign subsidiary or branch is most desirable.	_____	_____	_____
13) Has the company considered whether it should incorporate in the host country or a third country?	_____	_____	_____
14) Has the company considered incorporation requirements and the costs of incorporation?(See Section 2)	_____	_____	_____
15) Has the company considered the use of a hybrid entity in the host country which may be taxed as a partnership in the U.S. and as a corporation in the host country? Note: This may be advantageous where the company will own 50 percent or less of the foreign operation and desires to avoid the separate foreign tax credit limitation under §904(d)(2)(E), the company desires limited liability in the host country but current taxation in the U.S. or the company is an S corporation.	_____	_____	_____
16) Has the company considered the host country taxation of the foreign subsidiary including (See Section 2):			
.1) Federal and local tax rates on income?	_____	_____	_____
.2) Other taxes and customs duties?	_____	_____	_____
.3) Whether losses can be carried over and, if so, how long?	_____	_____	_____
.4) The withholding tax rate on dividends repatriated which increases the effective tax rate on the subsidiary's profits? Note: An income tax treaty may exist to reduce the rate.	_____	_____	_____
.5) The deduction of home country administrative and overhead expenses or management fee relating to the subsidiary's operations?	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) Whether a withholding tax is imposed on payments of administrative and overhead expenses or management fee made to the U.S. parent company?	_____	_____	_____
17) If the company plans to incur initial losses in the foreign subsidiary, has the company considered that it will not receive benefit for the losses on its U.S. income tax return?	_____	_____	_____
18) If the company contemplates sales through its foreign subsidiary, has it considered the U.S. and host country tax implications of compensating the subsidiary in the following forms:			
.1) Commission basis	_____	_____	_____
.2) Buy-sell basis:	_____	_____	_____
.3) Cost-plus basis: (i.e., payment to subsidiary equal to subsidiary's expenses plus acceptable profit percentage)? Note: Choosing the appropriate method can allow for the use of losses and minimize foreign and U. S. taxes within the limitations of host country and U.S. transfer pricing issues.	_____	_____	_____
19) Has the company considered that it may be entitled to a deemed paid foreign tax credit when it receives dividends from the foreign subsidiary [§902] (See Section 5).	_____	_____	_____
20) If the company is selling personal property through the subsidiary, has the company considered foreign title passage to generate foreign source income to use foreign tax credits? [§863(b) and §861(a)(6)] Note: Foreign title passage is ordinarily determined by where risk of loss is transferred. (See Section 5).	_____	_____	_____
21) Has the company considered that income of the foreign subsidiary may be subject to U.S. income tax currently under the provisions relating to foreign personal holding companies, controlled foreign corporations or passive foreign investment companies? (See Section 4).	_____	_____	_____
22) If a foreign branch is to be incorporated, has the company considered the foreign loss recapture rules of §904(f) and §367(a)?	_____	_____	_____
23) If tangible or intangible property is being transferred to the corporation, has the company considered §367(a) and §367(d)?	_____	_____	_____
24) If the subsidiary is incorporated in Mexico or Canada, has the company considered an election under §1504(d) to include the subsidiary in a consolidated U.S. income tax return (i.e., provided that the subsidiary is maintained solely for the purpose of complying with the laws of such country)?	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
25) If the foreign subsidiary will engage in transactions with its U.S. parent or other related parties:			
.1) Has the company considered if there will be appropriate intercompany charges to meet the arms length standards §482 and of the host country?	_____	_____	_____
.2) Has the company considered the contemporaneous documentation requirements of §6662(e)(3)(B) and the tax return disclosure requirements of §6694(a)(3) with respect to the arm's length standards of §482?	_____	_____	_____
26) If the company plans to transfer U.S. personnel to the foreign subsidiary, has the company considered the tax implications relating to the transferred employees? (See Section 6).	_____	_____	_____
<u>RECEIPT OF LICENSE FEES, ROYALTIES AND OTHER PAYMENTS</u>			
27) Has the company reviewed the possible U.S. and foreign tax advantages and disadvantages of advance lump-sum payments for technology (which may be characterized as payments arising from the sale or exchange of a capital asset), as either total or partial payment for technology?	_____	_____	_____
28) In considering an advance lump-sum payment, has the source of income for such payment been considered compared to periodic payments?	_____	_____	_____
29) Has the company considered that foreign taxes withheld from the payments for technology, whether lump-sum or periodic payment, may be eligible for U.S. foreign tax credit treatment? (See Section 5).	_____	_____	_____
30) Has the company considered that the payment may be eligible for a reduction in or an exemption from withholding tax in the foreign country pursuant to an income tax treaty with foreign country? (See Section 3).	_____	_____	_____
31) If the payment is eligible for a reduction in or exemption from foreign withholding tax under an income tax treaty, has the company filed the appropriate documents with the payor or foreign country to be eligible for such treaty benefits?	_____	_____	_____
32) Has the company done everything necessary to secure host country deductibility of the payments, including obtaining any required local approvals? (See Section 2).	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
33) If the payments are from a related party:			
.1) Has the company considered if the payments meet the arms length standards of §482 and of the host country?	_____	_____	_____
.2) Has the company considered the contemporaneous documentation requirements of §6662(e)(3)(B) and the tax return disclosure requirements of §6694(a)(3) with respect to the arms length standards of §482?	_____	_____	_____

S CORPORATIONS DOING BUSINESS ABROAD

34) If the U.S. company is an S corporation:			
.1) Has the company considered that tax attributes of foreign operations (e.g., income, losses, credits, etc.) will pass through to the shareholders?	_____	_____	_____
.2) Has the company considered that foreign taxes paid or accrued will pass through to the shareholders to be claimed as a deduction or foreign tax credit? (See Section 5).	_____	_____	_____
35) If the S corporation plans to own or owns stock in a foreign corporation , has the company considered that the shareholders will not be entitled to deemed paid foreign tax credits under §902? (See Section 5).	_____	_____	_____
36) If the S corporation desires to operate in a foreign country through an entity with limited liability (e.g., a corporation), but is unable to do so because tax attributes (e.g. income, losses or foreign tax credits) do not pass through from a foreign corporation, has the company considered the use of a hybrid entity (e.g., a limited liability company) which may be treated as a partnership or a disregarded entity for U.S. tax purposes and a corporation for foreign tax purposes?	_____	_____	_____

Section 2

INTERNATIONAL TAX ISSUES CHECKLIST

HOST COUNTRY TAX ISSUES

Overall purpose of this checklist: The purpose of this checklist is to assist the preparer in identifying issues which will require additional research in order to gain an understanding of the tax exposure a client faces when expanding business operations into foreign jurisdictions.

Client Name and Number: _____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
<u>FORMATION</u>			
1) Has the company considered the following related to the formation of an entity in a foreign jurisdiction?			
.1) What are the local audit requirements in the host country? Are these audit requirements different for branches vs. subsidiaries?	_____	_____	_____
.2) Whether a tax advantage can be gained by having a foreign presence without taxation in the host or third country?	_____	_____	_____
.3) Whether activities in the host country jurisdiction meet the definition of commercial residency for tax purposes?	_____	_____	_____
.4) How host country administrative or liaison offices are treated?	_____	_____	_____
.5) What constitutes local tax residency in the host country concerning host country branches with foreign home offices?	_____	_____	_____
.6) How should the host country business be established, as a branch or as a subsidiary? Are there tax distinctions in the host country between branches and subsidiaries, such as differences in tax rates? Note: Consider the effect that an income tax treaty with the host country may have on a branch or subsidiary?	_____	_____	_____
.7) Is there a required minimum local ownership in host country subsidiaries?	_____	_____	_____
.8) Are there other restrictions on ownership of host country subsidiaries?	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
.9) Should a host country holding company be created?	_____	_____	_____
.10) Should an offshore third country holding company be used to enter the host country?	_____	_____	_____
.11) How should the host country business be financed (i.e., by debt or equity)?	_____	_____	_____
.12) Are there host country thin capitalization restrictions?	_____	_____	_____
.13) What exchange controls exist on inbound investments?	_____	_____	_____
.14) Should an offshore third country finance company be used to enter the host country?	_____	_____	_____
.15) Should an offshore third country licensing company be used to enter the host country?	_____	_____	_____
.16) Should an offshore third country trading company be used to enter the host country subsidiary?	_____	_____	_____
.17) What are the implications of using a third country property rental company?	_____	_____	_____

HOST COUNTRY TAXATION

2) In general, what are the level of income taxes (i.e., are they greater or less than in the U.S.)?	_____	_____	_____
3) Are there local tax incentives (e.g., tax credits, tax exemptions for new investment, industry or zone incentives)?	_____	_____	_____
4) What are the local rates of taxation?	_____	_____	_____
5) Are there preferential capital gains tax rates?	_____	_____	_____
6) Are there penalties for accumulating earnings in the host country?	_____	_____	_____
7) Are there taxes based on capital?	_____	_____	_____
8) Are there local taxes below the national level?	_____	_____	_____
9) Do other nonincome type taxes apply (e.g., VAT, property, payroll, stamp, realty, registration, etc.)?	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
10) What host country special deductions, exemptions, incentives are available?	_____	_____	_____
11) What depreciation methods are allowable?	_____	_____	_____
12) Are there accelerated depreciation methods and/or expensing provisions which could be of benefit?	_____	_____	_____
13) What are the rules for deducting local taxes at the national and local levels within the host country?	_____	_____	_____
14) What restrictions are there on T & E expenses?	_____	_____	_____
15) Is there a difference in taxation of host country or other source income depending on whether the taxpayer is resident or nonresident?	_____	_____	_____
16) What are the transfer pricing rules in the host country on related party transactions?	_____	_____	_____
17) What are the allowable inventory methods?	_____	_____	_____
18) What business expenses are not tax deductible?	_____	_____	_____
19) How is interest expense treated for national and municipal tax purposes, i.e., are such payments deductible? Are there thin capitalization restrictions? (Refer to question 10)	_____	_____	_____
20) How are exchange gains and losses treated for tax purposes?	_____	_____	_____
21) What are the carryback/carryforward periods concerning net operating losses and foreign tax credits?	_____	_____	_____
22) What industry specific tax issues are relevant (e.g. manufacturing, building and construction, real estate investments, hotels, service industries, financial institutions, and tax exempts)?	_____	_____	_____
23) What are the payment dates and filing dates for local and national returns?	_____	_____	_____
24) Are tax consolidations permissible in the host country?	_____	_____	_____
25) Are advance rulings required or possible within the local jurisdiction for tax purposes?	_____	_____	_____
26) What is the tax audit process with respect to a host country investment made from a foreign jurisdiction?	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
27) How are host country capital gains treated for tax purposes when earned by nonresidents?	_____	_____	_____
<u>REPATRIATION OF EARNINGS AND/OR CAPITAL</u>			
28) In the event of establishing a multi-tiered structure in the host country, how are dividends from domestic sources treated for local tax purposes?	_____	_____	_____
29) What are the implications of profit repatriation? For example, are there different tax rates applicable to repatriated vs. retained earnings? Are there secondary taxes applicable to distributions?	_____	_____	_____
30) What withholding taxes are imposed locally on profit repatriations in the form of dividends, interest, royalties, technical assistance fees, management fees, etc.?	_____	_____	_____
31) What are the implications of a capital repatriation? Are distributions from accumulated earnings? Furthermore, can original invested capital be repatriated without any restrictions? What about exchange gains and losses?	_____	_____	_____
<u>INCOME TAX TREATY PROVISIONS</u>			
32) What is the tax treaty network of the host country?	_____	_____	_____
33) What tax treaty planning opportunities are available?	_____	_____	_____
34) Is double taxation relief in the form of a foreign tax credit or as an exclusion from income available? Furthermore, does the treaty provide relief in terms of exempting foreign source income from taxation?	_____	_____	_____
<u>HOST COUNTRY REORGANIZATIONS AND LIQUIDATIONS</u>			
35) What are the implications of transferring a host country branch to a host country subsidiary?	_____	_____	_____
36) What are the implications of transferring additional assets to the host country subsidiary?	_____	_____	_____
37) What if the host country's business is acquired in a host country subsidiary format?	_____	_____	_____
38) What are the implications of selling the host country branch?	_____	_____	_____
39) What are the implications of selling the host country subsidiary?	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
40) What exchange control obstacles must be overcome?	_____	_____	_____
41) Does the host country have tax-free merger/reorganization provisions?	_____	_____	_____
42) Is the shareholder taxed on the sale of shares even if he is a nonresident?	_____	_____	_____
43) Can assets be stepped up in reorganizations?	_____	_____	_____

Section 3

INTERNATIONAL TAX ISSUES CHECKLIST

INCOME TAX TREATIES

Note: All references contained in this checklist are to the United States Model Income Tax Convention of September 20, 1996. The applicable reference in a particular treaty may differ.

Overall purpose of this checklist: The purpose of this checklist is to assist the preparer in identifying issues with respect to income tax treaties that could apply to a U.S. business when it engages in commercial transactions in foreign jurisdictions or to a foreign business that engages in U.S. commercial transactions.

General: Treaties are bilateral agreements that provide rules regarding the right of a country to tax specific types of income earned in the country, including royalties, dividends, and interest. Treaties also contain rules regarding the taxation of business activities by a resident of one country for operations in another country (host country). Treaties also prevent tax avoidance or tax evasion.

There are other bilateral treaties which address social benefits, transportation income, estate and gift taxes, and exchange of information.

Please refer to the following Internal Revenue Service publications for additional information:

Publication 901, U.S. Tax Treaties

Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Corporations

Publication 597, Information on the United States – Canada Income Tax Treaty

Publication 519, U.S Tax Guide for Aliens

Copies of United States treaties can be found at <http://www.irs.gov/businesses/corporations/article/0,,id=96739,00.html>. They can also be obtained from the Department of Treasury, Office of Public Liaison, 1500 Pennsylvania Avenue, N.W., Room 4418, Washington, D.C. 20220.

Client Name and Number: _____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1) If the taxpayer receives income from a tax Jurisdiction other than its country of residence, review the following:			
.1) Is there an income tax treaty?	_____	_____	_____
.2) Is it in force? Note that a treaty might be signed by both parties, but until it has gone through the appropriate approval process in each country, it might not be in force. Also, there might be a delay in the effective date of certain treaty provisions.	_____	_____	_____
.3) Do protocols modify the original treaty?	_____	_____	_____
.4) Is the person (and its foreign operations) considered a resident of the U.S. or of the host country for purposes of applying the treaty provisions? [Article 4] The person must be resident in order to receive treaty benefits.	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Which taxes are covered by the treaty? [Article 2]	_____	_____	_____
.6) Is the person fiscally transparent? Some treaties deny treaty benefits to fiscally transparent entities because they are not regarded as residents of a treaty partner.	_____	_____	_____
.7) Does the treaty exclude any territories; for example, the U.S. model treaty excludes Puerto Rico? [Article 3].	_____	_____	_____
2) Do the person's host country activities create a permanent establishment possibly leading to foreign income taxation? If so, the host country can tax the business profits. Indicia of a permanent establishment include:	_____	_____	_____
.1) a fixed place of business through which the business of an enterprise is wholly or partly carried on. [Article 5(1)]	_____	_____	_____
.2) a place of management [Article 5(2)(a)]	_____	_____	_____
.3) a branch [Article 5(2)(b)]	_____	_____	_____
.4) an office [Article 5(2)(c)]	_____	_____	_____
.5) a factory [Article 5(2)(d)]	_____	_____	_____
.6) a workshop [Article 5(2)(e)]	_____	_____	_____
.7) a mine, an oil or gas well, a quarry, or any other place of extraction of natural resources [Article 5(2)(f)]	_____	_____	_____
.8) a building site or construction or installation project, or an installation or drilling rig or ship used for the exploration of natural resources, but only if the activity continues for more than twelve months. [Article 5(3)]	_____	_____	_____
3) Can the person's host country activities be excluded from permanent establishment classification because such activities are limited to:			
.1) the use of facilities solely for the purpose of storage, display, or delivery of goods? [Article 5(4)(a)]	_____	_____	_____
.2) the maintenance of inventory solely for the purpose of storage, display or delivery? [Article 5(4)(b)]	_____	_____	_____
.3) the maintenance of inventory solely for the purpose of processing by a third party? [Article 5(4)(c)]	_____	_____	_____
4) the maintenance of a fixed place of business for the purpose of purchasing of goods or collecting information? [Article 5(4)(d)]	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) the maintenance of a fixed place of business solely for the purpose of carrying on preparatory or auxiliary activities, e.g., activities which are not essential and significant as to the activity of the enterprise as a whole? [Article 5(4)(e)]	_____	_____	_____
4) Does a dependent agent in the host country have the authority to conclude contracts (other than for the activities enumerated in 3) above) in the name of the person and habitually exercises this authority? [Article 5(5)] Note: such activities will likely create a permanent establishment, and hence a tax liability, in the host country.	_____	_____	_____
5) Does the person carry on business through a broker, general commission agent, or any other independent agent in the host country? [Article 5(6)] Note: Such activities generally do not give rise to host country taxation	_____	_____	_____
6) Does the person derive income from real property, including agriculture or forestry, in the host country? [Article 6] Note: Such activities may be taxed in the host country.	_____	_____	_____
7) If the person has a permanent establishment in the host country, review the definition of taxable business profits in the host country. [Article 7]	_____	_____	_____
8) Does the treaty limit taxable profits to those attributable to that permanent establishment? [Article 7(1)]	_____	_____	_____
9) Does the treaty provide for an allocation of general and administrative expenses incurred outside the host country in determining the profits of a permanent establishment? [Article 7(3)]	_____	_____	_____
10) Does the treaty provide for an allocation of interest to the permanent establishment? [Article 7(3)]	_____	_____	_____
11) How does the treaty provide for relief from double taxation (e.g., a foreign tax credit or income exclusion)? [Article 23]	_____	_____	_____
12) Does the person intend to repatriate dividends from a host country subsidiary or corporate investment? If so, does the treaty provide for a reduced rate of withholding tax on host country dividends? [Article 10]	_____	_____	_____
13) What is the minimum ownership necessary to obtain the reduced rate of withholding? [Article 10(2)]	_____	_____	_____
14) Are the dividends attributable to a permanent establishment or personal services performed in a fixed base in the host country? If so, Article 10 may not apply. [Article 10(6)]	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
15) If the person intends to finance its host country operations with debt, does the treaty provide for a reduced rate of withholding on interest payments? [Article 11] If the interest income is attributable to a permanent establishment in the host country, treaty interest withholding tax rates might not apply.	_____	_____	_____
16) If the person intends to conduct licensing activities in the host country, does the treaty provide for a reduced rate of withholding tax on royalty payments? [Article 12] Careful attention should be paid to what type of property is being licensed. Different treatment may apply to different types of property. Note that royalties attributable to a permanent establishment will be taxed as part of the business profits.	_____	_____	_____
17) Has the person derived gains from real estate in the host country? If so, the gain is taxable in the host country. [Article 13]	_____	_____	_____
18) Is the taxpayer an individual who provides independent personal services in the host country and the services are provided in a fixed base regularly available to him in the host country? If yes, the taxpayer will be subject to tax in the host country. Article 14	_____	_____	_____
19) Employees who derive remuneration in the host country may become taxable in the host country. [Article 15].	_____	_____	_____
20) Personal service income: The employee may be exempt from host country taxation if:			
.1) the employee has been present in the host country for a period not exceeding 183 days in a twelve-month period	_____	_____	_____
.2) the employee is paid by an employer who is not a resident of the host country, and	_____	_____	_____
.3) the employee's remuneration is not borne by a permanent establishment or a fixed base in the host country [Article 15(2)]	_____	_____	_____
.4) Professors, Teachers, and Researchers: Generally pay is exempt from income tax for 2 or 3 years for a temporary visit to teach or to do research.	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Students and apprentices: Residents of certain treaty countries are exempt from tax on amounts received from outside the host country for maintenance and studies. This exemption does not apply to the salary paid by a corporation to one of its executives resident in a host country to study a particular industry for an employer. [Article 20]	_____	_____	_____
.6) Wages and pensions paid by a foreign government: Such wages and pension may be exempt from income tax under certain conditions. [Article 19]	_____	_____	_____
.7) Entertainers and sportsmen: Generally their income is taxable in the host country if it exceeds certain minimums. [Article 17]	_____	_____	_____
.8) Directors: Is the taxpayer a director who receives fees and other compensation for services rendered in this host country? If so, he is taxable on the compensation. [Article 16]	_____	_____	_____
21) Does the person expect to earn income from host country sources which could be classified as "other income" eligible for relief from host country taxation? [Article 21] [Reference Article 21]	_____	_____	_____
22) Is there a limitation on benefits article? If so, is the treaty being used in an impermissible indirect manner by a third-country resident? Article 22	_____	_____	_____
23) Does the person believe that the actions of the host country have created a situation inconsistent with the terms of the treaty; for example, has the country asserted that the person has a permanent establishment contrary to the provisions of Article 5? If so, consider using the competent authority mechanism described in Article 25.	_____	_____	_____
24) Is the entity subject to branch taxes in the US or in the host country? Does the treaty have an article or nondiscrimination provision which limits or eliminates this tax?	_____	_____	_____
25) Does the taxpayer takes the position that a U.S. tax is overruled or otherwise reduced by a U.S. treaty? If so, the position must be disclosed on Form 8833, Treaty-Based Return Position Disclosure. The form must also be filed if the taxpayer is not required to file a return due to the treaty-based position. No filing is required for reduced rates of withholding tax on noneffectively connection income such	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
as dividends interest, rents or royalties, or to reduced rate of tax on pay received for services performed as an employee. I.R.C. Sec 6114.	_____	_____	_____
26) Does the person remit payments to nonresidents of the United States?	_____	_____	_____
Is the appropriate tax being withheld? If there is a treaty override, has the person collected Form W-8BEN, Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding to document that the treaty rate applies? Review Section 8 checklist.	_____	_____	_____
27) Has the person met the requirements of the foreign country to certify that it is entitled to treaty benefits? This is often necessary before reduced rates of withholding tax can be obtained. See Publication 686, Certification for Reduced Tax Rates in Tax Treaty Countries.	_____	_____	_____

INTERNATIONAL TAX ISSUES CHECKLIST**OFFSHORE ANTI-DEFERRAL PROVISIONS**

Warning: The citations contained in this checklist are primarily to the U.S. Internal Revenue Code unless otherwise noted. Additional research may be required in the related regulations thereunder.

Overall purpose of this checklist: The purpose of this checklist is to assist the preparer in identifying issues that may require additional research in order to gain an understanding of the tax exposure a client faces when expanding business operations into foreign jurisdictions.

Client Name and Number: _____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
<u>CONTROLLED FOREIGN CORPORATIONS (CFCs)</u>			

U.S. shareholders of foreign corporations are subject to a special U.S. tax regime that may reduce or eliminate the ability to defer profits offshore. [§951 through §962]. Accordingly:

Stock Ownership Considerations

- 1) Does the client have an interest in a CFC (*i.e.*, more than 50% of the total combined voting power or value of the stock of the foreign corporation is owned by U.S. shareholders)? [§957(a)]

Note: Where the CFC is engaged in insurance activities, this question must be addressed in terms of a more than 25% interest in voting power or value. [§957(b)]

- .1) Is your client a "U.S. shareholder"? [as defined in §951(b)]

- .2) Have all the U.S. shareholders of the CFC been identified? [§951(b)]

- .3) For purposes of determining these stock ownership requirements, have you considered the attribution rules? [§958]

Subpart F Income and Section 956 Income

- 2) IRC §951 provides the types of income potentially includable by a "U.S. shareholder" of a CFC. These include subpart F income and §956 income. Accordingly:

- 1) Does the CFC engage in insurance activities? [§953]

- 2) Does the CFC earn foreign base company income? [For a detailed listing of foreign base company income, see §954(a)]

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
3) Has the CFC engaged in an international boycott? [§952(a)(3) and §999]	_____	_____	_____
4) Has the CFC paid any bribes, kickbacks, etc. to an official, employee, or agent of a government? [§952(a)(4)]	_____	_____	_____
5) Has the CFC derived income from a foreign country that the U.S. does not recognize, has severed domestic relations, does not conduct domestic relations, or is designated as a foreign country that supports international terrorism? [§901(j) and § 952(a)(5)]	_____	_____	_____
6) Does the CFC have investments in U.S. property?[§956]	_____	_____	_____
<u>Exclusions from Subpart F Income</u>			
3) Whether the CFC's income can be excluded from the subpart F provision under the de minimis rule. [§954(b)(3)]	_____	_____	_____
4) Whether the CFC's income can be excluded from the subpart F provisions because it receives amounts which are excluded from the foreign personal holding company income categories. [§954(c)(2) and (3)]	_____	_____	_____
5) Whether the CFC's income can be excluded from the subpart F provisions because it is subject to high foreign taxes. [§954(b)(4)]	_____	_____	_____
6) Whether the income of the CFC can be excluded from the subpart F provisions because it is U.S. source income which is effectively connected with a U.S. trade or business. [§952(b)]	_____	_____	_____
<u>Limitations on amount of Subpart F Income</u>			
7) Has the amount of the potential subpart F income been compared to the earnings and profits? [§952(c)(1)(A)]	_____	_____	_____
8) Does the CFC have prior year deficits that may impact the subpart F income inclusion? [§952(c)(1)(B)]	_____	_____	_____
<u>U.S. Shareholder - Tax Considerations/Elections</u>			
9) If the CFC earns subpart F income, or has income inclusions under §956, has the appropriate amount been included in the gross income of a U.S. shareholder? [§951(a)]	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
10) If the CFC makes a distribution to the U.S. shareholder, can such amount be excluded from the gross income of the U.S. shareholder because it is attributable to previously taxed earnings and profits? [§959]	_____	_____	_____
11) If amounts are included in gross income as a result of the subpart F provisions, can the U.S. shareholder claim a foreign tax credit? [[§901, §960]	_____	_____	_____
12) Has the U.S. shareholder considered the adjustments to basis in the CFC? [§961]	_____	_____	_____

PASSIVE FOREIGN INVESTMENT COMPANY (PFICs)

U.S. persons with an ownership interest in a PFIC are subject to a special U.S. tax regime that may limit the ability to defer profits offshore if the foreign company falls within the PFIC regime [§1291 through 1298]. Accordingly:

Special PFIC Rules

1) Does the U.S. person have an interest in a PFIC? [§1297 and §1298]	_____	_____	_____
2) Have you considered the special rules with respect to a start up year? [§1298(b)(2)]	_____	_____	_____
3) Have you considered the special rules where a corporation changes its business? [§1298(b)(3)]	_____	_____	_____
4) Have you considered the special rules for leased property in making PFIC determinations? [§1298(d)]	_____	_____	_____
5) Have you considered the special rules for certain intangibles with respect to PFIC determinations? [§1298(e)]	_____	_____	_____

U.S. Persons - Tax Considerations

6) Has the PFIC made an excess distribution? [§1291(b)]	_____	_____	_____
7) If an excess distribution has been received, has it been accorded its proper tax treatment? [§1291(a)(1)]	_____	_____	_____
8) Has there been a disposition of stock in a PFIC? [§1291(a)(2)]	_____	_____	_____
9) Is the shareholder of the PFIC required to recognize gain from a disposition as the result of making certain elections with respect to the PFIC? [§1291(d)(2)]	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
10) If there is an income inclusion as a result of investment in the PFIC, have the foreign tax credit rules been considered? [§1291(g)]	_____	_____	_____
11) Have you considered whether the U.S. person should elect to be currently taxed on income of the PFIC? [§1293 and § 1295]	_____	_____	_____
12) Have you considered whether the U.S. person should elect to extend the time for payment of tax on the PFIC's undistributed earnings? [§1294]	_____	_____	_____
13) Has the U.S. person considered any basis adjustments for PFIC income inclusions? [§1293(d)]	_____	_____	_____
14) Has the U.S. person considered that distributions may be nontaxable distributions of previously taxed income? [§1293(c)]	_____	_____	_____
15) Has the U.S. person considered the exceptions for U.S. shareholders of controlled foreign corporations? [§1293(g)]	_____	_____	_____
<u>Election of Mark to Market for Marketable Stock</u>			
16) Has the U.S. person considered the election to mark to market its stock in a PFIC? [§1296(a)]	_____	_____	_____
17) If the U.S. person made a mark to market election, has its basis in the stock been adjusted accordingly? [§1296(b)]	_____	_____	_____
18) If the shareholder is a CFC that owns stock in a PFIC, has it considered the tax treatment of a mark to market election?[§1296(f)]	_____	_____	_____
19) Is the U.S. person aware that once an election is made, it can only be revoked if a) the stock ceases to be marketable stock, or b) the Secretary consents to the revocation of the election? [§1296(k)]	_____	_____	_____

INTERNATIONAL TAX ISSUES CHECKLIST**FOREIGN TAX CREDITS**

Warning: The citations contained in this checklist are primarily to the U.S. Internal Revenue Code unless otherwise noted. Additional research may be required in the related regulations thereunder.

Overall purpose of this checklist: The purpose of this checklist is to assist the preparer in identifying issues concerning the U.S. foreign tax credit when a U.S. corporation pays income and withholding taxes in foreign jurisdictions.

Client Name and Number: _____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
<u>DIRECT FOREIGN TAX CREDIT (SECTION 901)</u>			
1) Foreign taxes can be claimed as a creditor or as a deduction. Have computations been made to determine which is more beneficial? [§901(a), §164]	_____	_____	_____
2) A taxpayer claims a foreign tax credit on foreign income in accordance with its method of accounting (cash or accrual method of accounting). Under section 905(a), a cash basis taxpayer can elect to claim credit on an accrual basis. Once elected, this method must be followed each year. Have considerations been given to make the accrual election of claiming foreign tax credit for the cash basis taxpayer?	_____	_____	_____
3) Effective for taxable years beginning after December 31, 1997, foreign taxes that are claimed on an accrual basis are translated at the average exchange rate for the taxable year to which such taxes related if the accrued taxes are paid within two years after the close of the taxable year of accrual. Section 986(a)(1).	_____	_____	_____
Foreign taxes are translated at the exchange rate in effect at the date the taxes were paid if (1) the foreign taxes are not paid within two years after the year of accrual, (2) the foreign taxes are actually paid in a taxable year before the year to which they relate, or (3) the tax payments are denominated in an inflationary currency. [Section 986 (a)(1)(B), (C) & (a)(2).]	_____	_____	_____
4) When foreign tax credits are claimed on the cash basis, they are generally translated at the rate of exchange in effect at the dates the taxes were paid. [Section 986(a)(2)(A)]	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
5) Also consider Section 905(c) tax redetermination, which provides that the taxpayer must notify the IRS if:			
The amount of foreign taxes accrued and claimed as credits for a taxable year differs from the amount of foreign taxes subsequently paid; [Section 905 (c)(1)(A)].			
<ul style="list-style-type: none"> ▪ Any foreign tax paid is refunded; [Section 905(c)(1)(C)] or ▪ The amount of foreign taxes accrued and claimed as credits for a taxable year are not paid within the two years following the close of that taxable year. [Section 905(c)(1)(B)]. 			
A tax redetermination is not required (and the taxpayer need not notify the IRS) if the foreign tax change is due solely to foreign currency fluctuation, provided the taxes are paid within 2 years of accrual.			
6) To be a creditable tax, the predominate character of the foreign tax must be an income tax in the U.S. sense. [Reg. 1.901-2(a)]			
Determine if the foreign tax is:			
<ul style="list-style-type: none"> a) Likely to reach and tax on net gain, based on three tests: realization, gross receipts and net income. [Reg. 1.901-2(b)(2),(b)(3) and (b)(4)] b) A soak-up tax (defined in 1.901-2(c)). c) A form of subsidy and therefore ineligible for the foreign credit. [Reg. 1.901-2(e)(3)] d) A noncompulsory payment and therefore ineligible for the foreign tax credit. [Reg. 1.901-2(e)(5)] e) A tax in lieu of income tax. [Section 903] f) A “Bad Country” tax and ineligible for the credit. [Section 901(j)] g) A part of a multiple levy which can affect the extent that the tax is eligible for foreign tax credit. [Reg. 1.901-2(e)(4)] h) Subject to the special oil and gas rules under Section 907. i) Addressed in the treaty. j) Contested? A contested tax cannot be credited until the dispute is resolved or the taxes are paid. [Rev. Rul. 84-125, 1984-2 CB 125] 			
7) If the corporation is a dual capacity taxpayer, defined in Reg. Sec. 1.901-2(a)(2)(ii)(A), allocate the tax levy between the amount that qualifies as a creditable tax and the amount that represents a payment for specific economic benefits. [Reg. Section 1.901-2A]			

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
<u>INDIRECT FOREIGN TAX CREDIT (SECTION 902)</u>			
8) Where a U.S. corporate taxpayer owns 10% or more of the voting stock of a foreign corporation from which it receives dividends, Section 902 allows a deemed-paid (indirect) foreign tax credit. Accordingly:			
.1) If the corporation is a domestic corporation, does it own 10% or more of the voting stock of a foreign corporation? [Rev. Rul. 84-6, 1984-1 C.B. 178]	_____	_____	_____
.2) Does the corporation receive (or deemed to receive) dividends from this foreign corporation?	_____	_____	_____
.3) If these conditions exist, have you appropriately considered the indirect foreign tax credit and “grossing up” the dividends by the amount of indirect credit on foreign taxes paid by the 10% or more owned foreign corporation? [§78 and §902(a)]	_____	_____	_____
9) Indirect foreign tax credits are also available on income taxes paid by lower-tiered (second-through sixth tier) foreign corporations when there is a “qualified group” of foreign corporations. These indirect tax credits from lower tiers are available when the first-tier foreign corporation makes (or deemed to make) a dividend to the U.S. corporate taxpayer. The amount of foreign taxes paid by the first-tier foreign corporation includes a proportionate share of the foreign taxes paid by the lower-tier corporations on dividends distributed up to the first-tier corporation.			
a. Accordingly, determine if there is a “qualified group.”	_____	_____	_____
1. For Tier Two foreign corporation, the U.S. taxpayer must indirectly own at least 5% in Tier Two’s voting stock and Tier One must directly own at least 10% in Tier Two’s voting stock. Section 902(b). Indirect ownership is equal to the product of (a) the % of voting stock owned by the U.S. taxpayer in Tier One multiplied by (b) the % of voting stock owned by Tier One in Tier Two.	_____	_____	_____
2. For Tier Three foreign corporation, the immediate upper tier must directly own at least 10% of its voting stock and the U.S. taxpayer must indirectly own at least 5% of its voting stock through a chain of foreign corporations connected through stock ownership of at least 10% of their voting stock. [Section 902(b)]	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
3. For Tier Four through Tier Six foreign corporations, they must satisfy the same ownership rules as 2. above, and each must be a controlled foreign corporation (CFC) of which the U.S. taxpayer is a U.S. shareholder as defined in Sections 957 and 951(b). For purposes of the indirect ownership, the product of the % ownership of voting stock at each tier from Tier Two down must equal at least 5 percent.	_____	_____	_____
b. Does any foreign corporation that is a member of a qualified group also own 10% or more of the voting stock of another member of its qualified group from which it receives dividends in any taxable year?	_____	_____	_____
1. If yes, such foreign corporation may be deemed to have paid the same proportion of such other member's post 1986 foreign income taxes under §902(a) as if such foreign corporation were a domestic corporation. [Section 902(b)]	_____	_____	_____
10) The amount of foreign taxes to be included in income under Section 78 as well as the amount to be eligible for the foreign tax credit where a U.S. shareholder owns a 10% or more ownership in a foreign corporation can be expressed as follows:	_____	_____	_____
<div style="display: flex; justify-content: space-between;"> <div> Post-1986 foreign taxes imposed on the foreign corporation </div> <div style="text-align: center;">X</div> <div> <u>Amount of dividend</u> Post-1986 after-tax earnings and profits of the foreign corporation </div> </div>			
Accordingly:			
.1) Have you considered the denominator of the fraction to include all undistributed earnings since from 1987 to the current year end, not reduced by an actual or deemed distribution made during the year? [§902(c)(1)]	_____	_____	_____
.2) Have you considered the multiplicand of the above fraction to include all foreign income taxes since 1987 – reduced by foreign taxes deemed paid on dividends distributed in prior years? [§902(c)(2)]	_____	_____	_____
.3) Where a foreign corporation first became 10% or more owned by a U.S. corporation (or becomes a member of a qualified group) after December 31, 1986, have you considered the special rule which changes the post-1986 period to post 10% ownership period? [§902(c)(3)]	_____	_____	_____
.4) Where there is a multi-tiered foreign structure, have you considered the special rules for computing post-1986 foreign taxes of upper tier foreign corporations above the sixth tier? [§902(c)(4)(B)]	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
.5) Where post-1986 undistributed earnings are exhausted, have you considered the provisions applicable to earnings and foreign taxes accumulated before 1987? [§902(c)(6)]	_____	_____	_____
11) If foreign taxes were deemed paid under Section 902 or Section 960 (discussed below), a change in the foreign taxes generally will not result in the redetermination of the U.S. tax liability. [Section 905(c)(1)]			
Instead, you adjust the pools of accumulated earnings and profits and accumulated foreign taxes for the amount of the refund or additional taxes owed. [Reg. 1.905-3T(d)(2) and Notice 90-26, 1990-1C.B. 336]	_____	_____	_____
12) However, a redetermination of U.S. tax liability is required in the following situations:			
a) The foreign tax liability is in a hyperinflationary currency. [Reg. 1.905-3T(d)(4)(i)]	_____	_____	_____
b) The amount of foreign tax accrued exceeds the amount of foreign tax paid by at least 2%, then the IRS in its discretion may require a redetermination of U.S. tax liability. [Reg. 1.905-3T(d)(4)(ii)]	_____	_____	_____
c) An adjustment to a foreign tax credit pool would reduce that pool below zero. [Reg. 1.905-3T(d)(4)(iv)]	_____	_____	_____
INDIRECT FOREIGN TAX CREDIT (SECTION 960)			
13) Under Section 960, a U.S. corporate shareholder can claim an indirect foreign tax credit on undistributed income of a controlled foreign corporation (CFC) that is taxed to the U.S. shareholder under Section 951 (e.g. Subpart F Income). Foreign taxes deemed paid under Section 960 are treated as additional dividends to the shareholder under Section 78. The indirect tax credit also applies to undistributed income taxed under Section 951 of lower-tier CFCs not beyond the sixth tier.			
a) Consider whether the corporation have income reportable under Section 951.	_____	_____	_____
b) If yes, determine if the ownership requirements of a qualified group under Sections 960(a)(1) and 902(b) are met to claim the indirect foreign tax credit. Due to different ownership requirements, it is possible that a U.S. shareholder is taxed under Section 951, but does not qualify for the indirect foreign tax credit under Section 960	_____	_____	_____

			<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
c)	If yes, determine indirect foreign tax credit from the first six tiers of CFCs. Unlike Section 902, Section 960 treats lower-tier CFC's foreign income taxes as deemed paid by the U.S. shareholder without first passing through the higher tiers.		_____	_____	_____
d)	The amount of foreign tax credit is computed in the same manner as the indirect foreign tax credit computed under Section 902. Therefore, the computations of foreign taxes deemed paid can be expressed as:				
	Post 1986 foreign income taxes imposed on the foreign corporation	X			
		Section 951 income _____ Post 1986 undistributed after-tax earnings and profits.			
	While the indirect tax credit is treated as a dividend under Section 78, it is not included as Section 951 income in the numerator. The other two factors are the same amounts as computed for the indirect tax credit under Section 902.		_____	_____	_____
e)	A CFC maintains a separate pool of post-1986 foreign income taxes and income for each separate category of income for foreign tax credit limitation purposes. For purposes of applying the correct separate foreign tax limitation category, consider the special look through rules regarding Subpart F income, dividends and other items from a CFC. [Section 904(d)(3) and Reg. 1.904-5]		_____	_____	_____
f)	Consider the interaction of Section 902 and 960 when dividends are distributed from lower-tier to upper-tier foreign corporations. For example, a dividend from a lower-tier foreign corporation can result in Subpart F income to the U.S. shareholder under Section 951. Under Section 902, the upper-tier foreign corporation is deemed to have paid an allocable share of foreign taxes on the dividends paid by the lower-tier, which can affect the amount of indirect foreign tax credit eligible to the U.S. shareholders under Section 960.		_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
g) Foreign income taxes credited under Section 960 when the income was taxed under Section 951 cannot be credited again under Section 902 when the income is distributed. Section 960(a)(2). In addition, Sections 960(a)(3) and 960(b) allow income that were taxed under Section 951 be treated as a dividend when distributed so that any subsequently imposed taxes (e.g. withholding tax) maybe credited under Section 902. Consider these rules whenever previously taxed income is distributed.	_____	_____	_____
FOREIGN TAX CREDIT LIMITATIONS			
14) There is a ceiling or limitation on the foreign tax credit (foreign tax credit limitation) under Section 904(a) which can be expressed as:	_____	_____	_____
<u>Foreign source taxable income</u> X U.S. income tax Total taxable income [§904(a)] before credits			
This foreign tax credit limitation computation is applied separately to different categories of income. Accordingly, consider the separate limitation with respect to:			
a) Passive income (e.g. dividends and interest) [§904(d)(1)(A) and §904(d)(2)(A)]	_____	_____	_____
.1) There are special exceptions to the passive income separate limitation. Has Has the company considered the special rules applicable to high taxed income? [§904(d)(2)(F)]	_____	_____	_____
.2) Has the company considered the special rules applicable to export financing interest as an exception to the passive income separate limitation? [§904(d)(2)(A)(iii)(II)]	_____	_____	_____
b) High withholding tax interest? [§904(d)(1)(B)]	_____	_____	_____
c) Financial services income [§904(d)(1)(C) and §904(d)(2)(C)]	_____	_____	_____
d) Shipping income [§904(d)(I)(D) and §904(d)(2)(D)]	_____	_____	_____
e) Dividends from noncontrolled (at least 10% but not more than 50% ownership) Section 902 corporations, out of E&P accumulated before Jan. 1, 2003. [§904(d)(1)(E), §904(d)(2)(E)]	_____	_____	_____
f) Special look through rules for dividends from noncontrolled Section 902 corporations paid out of E&P accumulated in taxable years beginning after 2002. [Section 904(d)(4)]	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
.g) Certain dividends from export incentive entities, e.g., domestic international sales corporation or foreign sales corporation? [§904(d)(l)(F) through (H)]	_____	_____	_____
.h) General limitation income [§904(d)(1)(I)]	_____	_____	_____
.i) Foreign oil and gas extraction income [Section 907(a)]	_____	_____	_____
15) For purposes of applying the correct separate foreign tax limitation category, consider the special look through rules for dividends, interest, rents or royalties, or Subpart F income from a controlled foreign corporation. Also review look through rules for payments by foreign pass-through entities and related entities. [§904(d)(3), Reg. 1.904-5]	_____	_____	_____
16) The separate foreign tax credit limitation is based on foreign source taxable income in each income category. Accordingly, has the company properly considered the source of each item of income? [Sections 861-865]	_____	_____	_____
17) Has the company properly considered the allocation and/or apportionment of expenses to each income category to arrive at the foreign source taxable income?	_____	_____	_____
Review the following expense apportionment and allocation rules:			
.1) Research and experimental expenditures [§864(f), §1.861-8(e)(3) and §1.861-14T(e)(2), 1.861-17]	_____	_____	_____
.2) Stewardship and supportive expenses [§1.861-(8)(e)(4), §1.861-14T(c)(3) and (4)]	_____	_____	_____
.3) Legal and accounting fees and expenses [§1.861-8(e)(5), §1.861-14T(e)(5)]	_____	_____	_____
.4) State and local income taxes [§1.861-8(e)(6)]	_____	_____	_____
.5) Losses on the sale, exchange or other disposition of property [§1.861-8(e)(7)]	_____	_____	_____
.6) Net operating losses [§1.861-8(e)(8)]	_____	_____	_____
.7) Interest expense [§1.864(e), §1.861-9T through 13T, § 1.861-9 through 11]	_____	_____	_____
.8) Deductions not definitely related to any gross income [§1.861-8(c)(3)]	_____	_____	_____
.9) Special deductions. [§1.861-8(e)(10)]	_____	_____	_____
18) If there are losses within any of the separate limitation categories, have the separate limitation loss and recharacterization rules been considered? [§904(f)(5)]	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
19) If, after apportioning deductions to each of the separate limitation categories, there is an overall foreign loss, has the company considered the special recapture rules concerning an overall foreign loss? [§904(f) and §1.904(f)]	_____	_____	_____
ALLOCATION OF FOREIGN TAXES			
20) Foreign income tax paid or accrued with respect to a separate income category includes only those amounts that are related to the income in that category. Taxes are related to the income if the income is included in the income base for assessing the foreign income tax. [Reg. Section 1.904-6(a) and (c)]	_____	_____	_____
21) Many foreign taxes related to more than one class of income. If a tax is attributable to more than one category of income.	_____	_____	_____
The following formula is used to allocate foreign income taxes to a category.			
Foreign tax related to More than one category	X	<u>Net income</u> <u>in a separate category</u> <u>Net income subject of</u> <u>that foreign tax</u>	
Consider Reg. Sections 1.904-6(a) and (b) in the allocation of foreign taxes and the computations of net income in a separate income category.			
22) Foreign tax allocated to a separate category can further be allocated to Subpart F income or a Section 902 dividend based on the following formula (Reg. Section 1.904-6(b)(1)):	_____	_____	_____
Foreign tax in the category	X	<u>Subpart F income</u> <u>(or dividend)</u> <u>Total income in the</u> <u>category</u>	
23) Where a foreign tax credit limitation exceeds the foreign taxes allocable to a separate limitation category in any one year, consider the carryback and carryover provisions for such taxes [§904(c)]	_____	_____	_____
OTHER CONSIDERATIONS			
24) If the company owns a foreign corporation which is deriving income from U.S. sources (e.g. receiving a royalty for an intangible being used in the U.S.), will there be an adverse effect on the U.S. foreign tax credit? [§904(g)]	_____	_____	_____
25) Has a determination been made as to which year the foreign tax is to be claimed as a credit? [§905(a)]	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
26) Consider the requirements of proving the amounts claimed as foreign tax credits (i.e., furnishing copies of foreign tax forms or receipts, etc.). [§905(b) and §1.905-2]	_____	_____	_____
27) If the legal organizational structure of the company has a mixture of both foreign and domestic corporations interspersed throughout the chain of ownership, have the deconsolidation rules concerning the foreign tax credit limitation been considered? [§904(i) and §1.904(i)]	_____	_____	_____
28) Consider possible denial of foreign tax credits due to	_____	_____	_____
29) If Section 1248 applies to gains recognized on a sale, exchange or disposition of foreign stock, consider possible indirect foreign tax credits under Section 902.	_____	_____	_____
30) If passive foreign investment company (PFIC) taxes apply under Sections 1291 and/or 1293, consider indirect foreign tax credits under Sections 902 and/or 960.	_____	_____	_____

INTERNATIONAL TAX ISSUES CHECKLIST**U.S. INCOME TAXATION OF EXPATRIATES**

Warning: All references contained in this checklist are to the U.S. Internal Revenue Code. Additional research may be required in the related regulations thereunder.

Overall purpose of this checklist: The purpose of this checklist is to assist the preparer in identifying income tax issues concerning the transfer of U.S. employees to foreign jurisdictions.

Client Name and Number: _____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1) Only qualified individuals are eligible for the foreign earned income exclusion. [§911(d)(1)] Accordingly, do the company's employees fall within one of the following categories?	_____	_____	_____
.1) A U.S. citizen who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year.	_____	_____	_____
.2) A U.S. citizen or resident alien who is physically present in a foreign country or countries for at least 330 full days during any period of twelve consecutive months.	_____	_____	_____
2) In order to qualify for the foreign earned income exclusion or the foreign housing exclusion, a transferred employee must maintain a tax home in a foreign country [§911(d)(1) and (3)]. Accordingly, will the company's transferred employee meet any of the following criteria:	_____	_____	_____
.1) Consider whether the transferred individual resides in his or her general area of main place of business, employment, or post of duty.	_____	_____	_____
.2) If the transferred individual does not live within his or her general area of main place of business or employment, consider whether the individual has a regular or main place of business in a location where he or she generally carries out duties as an employee.	_____	_____	_____
.3) If the individual is in a constant state of travel, his or her tax home will be considered as wherever he or she works on an itinerant basis. Accordingly, consider whether these locations are all foreign.	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
4) In order to have a foreign tax home, the transferred individual must not maintain a U.S. abode. Accordingly, consider whether the individual maintains a U.S. owned or rented residence solely for the purposes of temporary usage when present in the U.S.	_____	_____	_____
.5) In order to eliminate the presence of a U.S. abode, if the individual has a U.S. residence prior to accepting the foreign assignment, consider whether the individual is able to demonstrate that he or she does not maintain domestic work contacts in the area of former residence during the time he or she works abroad.	_____	_____	_____
.6) In order to eliminate U.S. abode, consider whether the individual will be able to demonstrate that living expenses are not duplicated in the U.S. and foreign location.	_____	_____	_____
.7) In order to eliminate U.S. abode, consider whether the individual will be able to demonstrate that he or she does not have a family member or members continuing to live at the U.S. address or frequently using the U.S. home for lodging during the period of foreign assignment.	_____	_____	_____
.8) In order to demonstrate that the location of the tax home is foreign, the individual must demonstrate that the foreign assignment is temporary or indefinite. Accordingly, consider whether the foreign assignment realistically is expected to last at least twelve months.	_____	_____	_____
3) In order to claim the foreign earned income exclusion or the foreign housing exclusion, or deduction, the transferred individual must meet either a bona fide residence test or a physical presence test. Accordingly, with respect to the bona fide residence test. [§911(d)(5)]:	_____	_____	_____
.1) Consider whether the individual has established a foreign residence.	_____	_____	_____
.2) Statements to foreign authorities can deny the individual the right to the exclusions and deductions. Accordingly, consider whether the individual has made a statement to the authorities of the foreign country that he or she is considered not a resident of the host country.	_____	_____	_____
.3) To qualify for the bona fide residence test, a specified time period must be satisfied. Accordingly, consider whether the individual has resided in a foreign country for an uninterrupted period that includes an entire tax year which runs from January 1 through December 31.	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
4) Although the individual can leave the foreign country and return to the United States during this one year testing period, consider whether the individual left the foreign country only for brief or temporary trips back to the United States or else for vacation or business.	_____	_____	_____
.5) Once having left a foreign jurisdiction where the one year test is running, consider whether the individual can demonstrate that he or she had a clear intention of returning from such trips without unreasonable delay to the foreign residence or to a new bona fide residence in another foreign country.	_____	_____	_____
.6) Once having satisfied the bona fide residence test, it may be possible to use this test in order to obtain the foreign exclusions and deductions for partial years relative to the year of transfer abroad or the year of return back to the United States. Accordingly, consider whether the bona fide residence test should be used in a year of transfer to or from the foreign post.	_____	_____	_____
3) E.g.: An individual is a bona fide resident in a foreign jurisdiction from March 1, 1990 through September 14, 1992. On September 15, 1992 the individual returned to the U.S. Since the individual was a bona fide resident of a foreign country for all of 1991, the individual qualifies as a bona fide resident from March 1, 1990 through September 14, 1992.	_____	_____	_____
4) Alternatively, in order to obtain the foreign exclusions and deductions, the individual can meet a physical presence test [§911(d)(1)(B)]. Accordingly, consider whether the individual will be physically present in a foreign country or countries for 330 days (approximately 11 months) during a period of twelve consecutive months. (Note: The 330 qualifying days do not have to be consecutive nor do they have to fall in one calendar year.)	_____	_____	_____
.1) Note that the physical presence test is fairly liberal. Accordingly, has the company considered vacation time in foreign countries for purposes of meeting the qualification?	_____	_____	_____
.2) However, on the other hand, the 330 day requirement is unconditional with one exception. Accordingly, has the company appropriately considered all return trips to the U.S. for vacation or otherwise which count against the 330 day time requirement? Note: The only exception to the 330 day test is where an individual leaves because of a war or civil unrest.	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) For purposes of counting the 330 days, a full day is specifically defined. Accordingly, has the company considered a full day as a period of 24 consecutive hours beginning at midnight? Note: The individual must spend each of the 330 full days in a foreign country.	_____	_____	_____
.4) Although foreign travel is permissible during the 330 day period, consider whether the individual has, during his or her foreign travels, not been within a foreign country or countries for 24 hours or more? Note: This will count against the 330 day requirement.	_____	_____	_____
5) Only foreign earned income is eligible for the foreign earned income exclusion and the foreign housing exclusion/deduction. [§911(b)]. Accordingly, has the company considered only the compensation the individual has received for services performed in a foreign country during a period his or her tax home was in a foreign country and he or she met either the bona fide residence test or the physical presence test?	_____	_____	_____
6) Has the company excluded from the foreign earned income amounts classified as meals and lodging furnished for the convenience of the individual's employer?	_____	_____	_____
.1) Has the company excluded from these foreign benefits amounts received as a pension, annuity or social security benefits?	_____	_____	_____
.2) Has the company excluded from these benefits amounts contributed by the individual's employer to a nonexempt employee trust or to a nonqualified annuity contract?	_____	_____	_____
.3) Only earned income is eligible for these benefits. Accordingly, has the company included only amounts such as salaries, wages, commissions, bonuses, professional tips, etc.?	_____	_____	_____
.4) Various allowances are also considered earned income for purposes of these foreign benefits. Accordingly, has the company considered compensation items such as lodging, meals, automobiles, cost of living, overseas differential, family, education, home leave, quarters, moving, etc.?	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Only income from foreign sources is eligible for these benefits. Accordingly, has the company verified that none of the compensation paid is for a specific amount of labor or personal services performed in the United States? Note: If there is no specified assignment of compensation for work performed in the United States, a time basis is most appropriate. Accordingly, in most cases the company will make this determination by multiplying the total pay by a fraction based upon time spent in the United States vs. time spent abroad	_____	_____	_____
.6) Certain employment expenses can be excluded from foreign earned income. Accordingly has the company considered expenses which are reimbursed to the transferred individual which he or she incurred on behalf of his or her employer and which have accounted to the employer with respect to the expenses?	_____	_____	_____
7) For purposes of the foreign earned income exclusion and the foreign housing exclusion/deduction, there are special rules with respect to moving expenses. [§1.911-6(b)]. Where the move is from the U.S. to a foreign country:	_____	_____	_____
.1) Consider whether the individual will satisfy either the bona fide residence test or physical presence test for at least 120 days during the year of the move. Note: If so, the reimbursement will be considered as earned solely in the year of the move for purposes of the foreign earned income exclusion.	_____	_____	_____
.2) Consider whether the individual fails to qualify under either the bona fide residence or physical presence test for 120 days during the year of the move. Note: If such is the case the reimbursement will be considered earned in the year of the move and the year following the year of the move for purposes of the foreign earned income exclusion. Furthermore, the reimbursement will be allocated between the two years as demonstrated by the following example:	_____	_____	_____
<p>Example: An individual is a U.S. citizen employed in the U.S. who is transferred to a foreign country on December 15, 1995. The individual will qualify as a bona fide resident for the remainder of 1995 and the entire tax year of 1996. The employer reimburses the individual \$6,000 in January, 1996 for the expense of moving to the foreign country. Because the individual does not qualify as a bona fide resident for at least 120 days during 1995, the reimbursement will be considered as payment for services performed in the foreign country for the tax years 1995 and 1996. It should be noted that this computation is used only to determine when the reimbursement is earned for</p>			

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
purposes of the foreign earned income exclusion and not the year in which the amount is to be reported and included in income. The income inclusion is based upon the year in which the amount is received.	_____	_____	_____
.3) If the individual moves between foreign countries, does he or she satisfy either the bona fide residence test or physical presence test for at least 120 days during the year of the move? Note: In such case no proration of the moving expense reimbursement is required for purposes of the foreign earned income exclusion.	_____	_____	_____
.4) If the move is between foreign countries, does the individual fail the 120 day bona fide residence or physical presence test for the year of the move? Note: A proration between the year of the move and the subsequent year is required for the foreign earned income exclusion.	_____	_____	_____
.5) Is the moving expense reimbursement for a move back to the United States a determination of the foreign assignment? Note: Such amounts are generally considered U.S. source income. However, if there is an agreement between the employer and the individual or a written statement of company policy indicating that the employer will reimburse the employee for the move back to the U.S., the reimbursement can be considered as compensation for past services performed in a foreign country	_____	_____	_____
8) An individual employee transferred to a foreign post is entitled to a foreign earned income exclusion [\$911(a)(1)]. Accordingly,			
.1) Consider whether the company's client was involved in a situation where both he/she and his/her spouse meet either the bona fide residence test or the physical presence test and both work abroad? Note: In this instance the combined exclusion cannot exceed \$160,000.	_____	_____	_____
.2) Consider whether a portion of the compensation comprised of a bonus which is based on services performed over several tax years. Note: The company must determine the amount of the bonus that is considered earned in a particular tax year by dividing the bonus by the number of calendar months in the period when the services were performed and then multiplying the result by the number of months those services were performed during the tax year. Thus, this allocation over the period will have an impact on the foreign earned income.	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Consider whether the individual received income more than one year after it was earned for services abroad. Note: Income received after the end of the tax year following the year in which the services were performed is not eligible for the foreign earned income	_____	_____	_____
.4) Consider whether the individual qualifies under either the bona fide residence test or physical presence test for only part of the tax year. Note: The foreign earned income exclusion as well as the foreign housing exclusion/deduction must be prorated.	_____	_____	_____
.5) Consider whether the individual has met the procedural requirements with respect to choosing the foreign earned income exclusion. Note: The foreign earned income exclusion is executed by completing the appropriate parts of Form 2555. "Foreign Earned Income."	_____	_____	_____
.6) Consider whether the individual timely filed its elections. Note: The company's initial choice of the exclusion must be filed with the timely filed return, including any extensions, return amending a timely filed return, or a late filed original return filed within one year after the due date without regard to any extensions	_____	_____	_____

INTERNATIONAL TAX ISSUES CHECKLIST**FOREIGN CURRENCY TRANSACTIONS**

Warning: The citations contained in this checklist are to the U.S. Internal Revenue Code. Additional research may be required in the related regulations thereunder.

Overall purpose of this checklist: The purpose of this checklist is to assist the preparer in identifying issues relevant to foreign currency transactions.

Client Name and Number: _____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____

FUNCTIONAL CURRENCY:

A taxpayer's functional currency is the currency in which a significant part of its activities is conducted and is the functional currency used to maintain its books and records. (§985(b)).

A Qualified Business Unit (QBU) is any separate and clearly identified unit of a trade or business of a taxpayer which maintains separate books and records. (§989(a)).

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
1) Has the client's current "functional currency" been determined?	_____	_____	_____
2) Does the company meet any of the following criteria?	_____	_____	_____
If so, the dollar will be the company's functional currency (§1.985-1(b))			
.1) Is the taxpayer not a QBU (e.g., an individual)? (§1.985-1(b)(i))	_____	_____	_____
.2) Does the QBU conduct its activities primarily in dollars? (§1.985-1(b)(ii))	_____	_____	_____
.3) Is the QBU a resident of a country that has the United States dollar as its standard currency? (§1.985-1(b)(iii))	_____	_____	_____
.4) Is the QBU a resident of the United States or any possession or territory of the United States (e.g., Puerto Rico)? (§1.985-1(b)(iii))	_____	_____	_____
.5) Does the QBU not keep its books and records in the currency in which a significant part of its activities is conducted? (§1.985-1(b)(iv))	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
.6) Is the QBU's income or loss effectively connected income with the conduct of a U.S. trade or business? (§1.985-1(b)(v))	_____	_____	_____
3) If there is a change in functional currency, has the company considered that this is a change in accounting method? (§985(b)(4)).	_____	_____	_____
<u>HYPERINFLATIONARY CURRENCY</u>			
A hyperinflationary currency is the currency of a country in which there is cumulative inflation during the three year base period of at least 100 percent as determined by reference to the consumer price index of the country (§1.985-1(b)(2)(ii)(D)).			
4) A QBU operating in a hyperinflationary country is required to use the dollar as the functional currency. (§1.985-1(b)(2))	_____	_____	_____
5) Consider whether the QBU is a branch of a foreign corporation that has a non-dollar functional currency that is not hyperinflationary. If yes, the currency will be the non-dollar functional currency of the foreign corporation. (§1.985-1(b)(2)(ii)(B)(1))	_____	_____	_____
6) If the QBU is not a controlled foreign corporation, it is not required to use the dollar as its functional currency. (§1.985-1(b)(2)(ii)(B)(2))	_____	_____	_____
7) Has the company's currency ceased to be hyperinflationary? If it had been required to use the dollar as its foreign currency, it must change its functional currency on the first day of the taxable year that follows three consecutive taxable years in which the currency of its economic environment is not a hyperinflationary currency. (§1.985-1(b)(2)(ii)(E))	_____	_____	_____
8) When the company has one or more qualified business units with functional currencies other than the dollar has taxable income been determined	_____	_____	_____
.1) by computing the taxable income or loss separately for each unit in its functional currency;	_____	_____	_____
.2) by translating the income or loss separately computed at the appropriate exchange rate; and	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENT OR EXPLANATION</u>
.3) by making proper adjustments for transfers of property between QBUs of the taxpayer having different functional currencies? (§987)	_____	_____	_____
<u>EARNINGS AND PROFITS:</u>			
9) When a distribution has been made of earnings and profits, have the earnings and profits been determined in the company's functional currency? (§986(b)).	_____	_____	_____
10) When a distribution has been made of previously taxed earnings and profits, has gain or loss been recognized on the difference between the currency rates at the time of deemed and actual distribution? (§986(c)).	_____	_____	_____
<u>Treatment of Certain Foreign Currency Transactions (§988)</u>			
A §988 transaction is:			
1) a disposition of nonfunctional currency	_____	_____	_____
2) any transaction involving	_____	_____	_____
a) debt instruments,	_____	_____	_____
b) payables or receivables; or	_____	_____	_____
c) a forward contract, futures contract, options contract or similar instrument. (§1.988-1)	_____	_____	_____
1) Has the company completed a §988 transaction?	_____	_____	_____
2) If a §988 transaction has been completed, has the company computed a gain or loss on the transaction? (A gain is the excess of the amount realized over the adjusted basis of the currency and a loss is the excess of the adjusted basis of the currency over the amount realized.)	_____	_____	_____
3) Has the company considered that any foreign currency gain or loss attributable to the transaction is computed separately and treated as ordinary income or loss?	_____	_____	_____
4) Has the company considered making an election to have any gain or loss from a forward, futures or options contract treated as a capital gain or loss? (§1.988-3(a))	_____	_____	_____
5) Has the company entered into a hedge to reduce the risk of currency fluctuations with respect to property or to reduce the risk of currency fluctuations with respect to borrowings? If so, properly identified, the underlying asset or borrowing and the related hedge can be integrated. (§1.988-5(a)(9)).	_____	_____	_____

INTERNATIONAL TAX ISSUES CHECKLIST**CHECK THE BOX ELECTION**

Warning: The citations contained in this checklist are to the U.S. Internal Revenue Code. Additional research may be required in the related regulations thereunder.

Overall purpose of this checklist: The purpose of this checklist is to assist the preparer in identifying issues relevant to the options U.S. based companies have in choosing their entity status..

Client Name and Number: _____

Prepared by: _____ Date: _____

Reviewed by: _____ Date: _____

On January 1, 1997, the classification rules that determine whether an entity is taxed as a corporation or a partnership changed. The "check-the-box" regulations automatically classify certain organizations as corporations and allow certain taxpayers to elect the federal tax classification of other business entities that are not "per se" corporations.

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1) If the company meets any of the following criteria, it is not entitled to elect out of its classification as a corporation. (A grandfather rule exists for certain foreign entities in existence on May 8, 1996) [Regs §301.7701-2 (d)]			
.1) Consider whether the entity is organized under a Federal or State statute as a corporation.	_____	_____	_____
.2) Consider whether the entity is an association.	_____	_____	_____
.3) Consider whether the entity is organized under a State statute that describes or refers to the entity as a joint-stock company or joint-stock association.	_____	_____	_____
.4) Consider whether the entity is an insurance company.	_____	_____	_____
.5) Consider whether the entity is a state-chartered bank whose deposits are insured by the Federal Deposit Insurance Act.	_____	_____	_____
.6) Consider whether the entity is owned by a State or political subdivision.	_____	_____	_____
.7) Consider whether the entity is taxable as a corporation under a specific Code provision. (e.g. a publicly traded partnership is taxed as a corporation under §7704).	_____	_____	_____
.8) Consider whether the entity is listed in Regs. §301.7701-2(b)(8) as a "per se" entity?	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
2) If the company does not meet any of the requirements listed above it may elect its entity classification for federal tax purposes	_____	_____	_____
<u>ENTITY OWNERSHIP/MEMBERSHIP</u>			
3) Consider whether the entity is an eligible entity with at least two members.			
.1) If yes, consider whether the entity will make an election to be treated as a partnership or a corporation. (§301.7701-3(a))	_____	_____	_____
4) Consider whether the entity is an eligible entity with a single owner.			
.1) If yes, consider whether the entity may choose to be classified as an association taxable as a corporation or as a disregarded entity separate from its owner. (i.e. taxed as a sole proprietorship, branch or division of the owner's organization) (§301.7701-3(a))	_____	_____	_____
5) Consider whether the eligible entity is a foreign entity. (§301.7701-3(b)(2))	_____	_____	_____
If yes, unless it elects otherwise:			
.1) A foreign entity is a partnership if it has two or more members and at least one member does not have limited liability.	_____	_____	_____
.2) A foreign entity is an association if all members have limited liability	_____	_____	_____
.3) A foreign entity is disregarded as an entity separate from its owner if it has a single owner that does not have limited liability.	_____	_____	_____
6) Consider whether the entity is a newly formed domestic corporation that has <u>two or more members</u> .			
.1) If yes, consider whether the company's classification may default to a partnership unless an election is made to be classified as an association. (§301.7701-3(b)(1))	_____	_____	_____
7) Consider whether the entity is a newly formed domestic corporation with a <u>single member</u> .			
.1) If yes, consider whether the entity may not be treated as an entity separate from its owner for federal tax purposes unless an election is filed to classify the organization as an association. (§301.7701-3(b)(1))	_____	_____	_____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
<u>MAKING THE ELECTION</u> (§301.7701-3(c))			
8) Consider whether the company is aware of the filing requirements to make an election.	_____	_____	_____
.1) Consider whether the company completed Form 8832 to make the election to change.	_____	_____	_____
.2) Consider whether the company completed all required information on Form 8832. If not, the election will not be accepted.	_____	_____	_____
.3) Consider whether the election been signed by the appropriate parties of the entity.	_____	_____	_____
.4) Consider whether the company is aware that the election must be made at the beginning of the entity's tax year that the election is to be effective, not with the entity's first tax return.	_____	_____	_____
.5) Consider whether the company is aware that once an entity has elected a classification status, it may not change that status during the five years after the effective date of the election. (However, the IRS may waive the five-year limitation by letter ruling.)	_____	_____	_____
<u>PROPOSED REGULATIONS</u>			
9) Consider whether the company has changed its entity classification.	_____	_____	_____
10) If yes, has it considered the tax consequences associated with the proposed regulations? Is the company aware of the delayed effective date of the proposed regulations, i.e., effective five years from the date of issuance of the final regulations (IRS Notice 98-35).	_____	_____	_____

USER INSERTS

The inserts following this page are for use within any of the checklists when appropriate. Each checklist has an item asking whether any of these checklists are required to be used whereupon they may be completed and attached to the completed checklist.

INSTALLMENT SALES CHECKLIST

2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) CONSIDERATIONS			
101) Consider related-party rules.	_____	_____	_____
102) Determine that the full amount of depreciation recapture is reported in the year of sale if payment was received in that year.	_____	_____	_____
103) Review for adequate stated interest on debt instruments received in connection with the sale, and determine if original issue discount or unstated interest rules require restatement of note interest and principal.	_____	_____	_____
104) Determine if the taxpayer is a "dealer" with respect to the related property. If so:			
.1) Determine that the installment method is <u>not</u> used to report post-1987 sales of dealer property. (Exceptions: farm property, certain timeshare rights, and residential lots if proper election is made.)	_____	_____	_____
.2) Determine that the interest owed as a result of an election above is properly reported.	_____	_____	_____
105) Consider special rules for installment reporting by certain non-dealers of real or personal property where the sales price exceeds \$150,000. (§453A) (Does not apply to certain farm property and certain individual use property.)	_____	_____	_____
.1) Compute the interest charge imposed on outstanding tax-deferred installment obligations if the face amount of these obligations that arose during, and are still outstanding at the close of, the tax year exceeds \$5 million.	_____	_____	_____
.2) Determine that the proper amount is treated as a collection on any pledged installment obligation.	_____	_____	_____
106) Consider election out of installment method.	_____	_____	_____
107) Determine if an event has occurred requiring accelerated recognition of the remaining unreported gain (e.g., resale rule for related parties, cancellation of the installment obligation, disposition of the installment obligation).	_____	_____	_____
108) Consider the repeal by the Installment Tax Correction Act of 2000 of the prohibition of installment reporting by most accrual method taxpayers.	_____	_____	_____
109) Consider denial of installment sale treatment for all readily tradable debt for sales on or after October 22, 2004. (AJCA 2004)	_____	_____	_____

LONG-TERM CONTRACTS CHECKLIST

2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) CONSIDERATIONS			
101) Determine if the taxpayer is subject to the long-term contract reporting rules requiring that the percentage-of-completion method, instead of the completed contract method, be used to determine taxable income. (Note exceptions for certain qualifying construction contracts and most contracts for the manufacture of property.)	_____	_____	_____
102) In determining if contracts of the taxpayer are subject to the percentage-of-completion method of reporting, consider:			
.1) Related-party rules.	_____	_____	_____
.2) Contract aggregation rules.	_____	_____	_____
103) Determine that the percentage-of-completion is calculated based on costs incurred, not work performed.	_____	_____	_____
104) Determine that all required costs have been allocated to the contracts. (Note the expanded requirement to capitalize costs similar to the uniform capitalization rules.)	_____	_____	_____
105) Consider electing the simplified method of allocating costs, whereby fewer costs are taken into account, to determine the degree of contract completion.	_____	_____	_____
106) Consider electing the modified percentage-of-completion method, whereby the recognition of income and accounting for costs is deferred until the first tax year in which at least 10% of the estimated total contract costs have been incurred as of the end of that year. (Note this election is not available if the simplified method above has been elected.)	_____	_____	_____
107) Upon completion of a contract, determine that the "look-back rule" has been applied to compare actual contract price and costs to previously used estimates, and pay/claim interest on the related changes in prior years' taxes on Form 8697. (Note certain small contracts are not subject to the "look-back rule." Consider election to not apply look-back method.)	_____	_____	_____
108) Consider the effects of transferring a partnership interest or S Corporation stock holding a contract accounted for under a long-term contract method of accounting. (Final Reg. § 1.460-4(k) and Reg. § 1.460-6(g))	_____	_____	_____

UNIFORM CAPITALIZATION CHECKLIST
2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) CONSIDERATIONS			
101) Determine the applicability of uniform capitalization rule to resellers with annual gross receipts in excess of \$10 million and all producers of property. (Note final regulations related to general rules (Reg. § 1.263A-1), producers (Reg. § 1.263A-2) and resellers (Reg. § 1.263A-3).)	_____	_____	_____
102) Determine that all costs are included.	_____	_____	_____
103) Consider interest capitalization rules for debt incurred to produce property.	_____	_____	_____
104) If the beginning inventory is revalued:			
.1) Ascertain the amount of adjustment required for the beginning inventory due to the change in method of accounting. (§ 481)	_____	_____	_____
.2) Ascertain § 481 forward spread period (not to exceed four years).	_____	_____	_____
.3) Determine that Form 3115 is attached to the tax return for the year of change.	_____	_____	_____
.4) Consider electing "simplified" methods.	_____	_____	_____
105) For farmers and ranchers consider:			
.1) One-time election out of uniform capitalization rules if election was not required in a prior year.	_____	_____	_____
.2) The exemption for expenses incurred in the production of animals.	_____	_____	_____
106) Review the definition of "produce."	_____	_____	_____
107) Consider the applicability of requesting permission to change accounting method. (Form 3115)	_____	_____	_____
108) Consider exception to UNICAP for inventory of a "small taxpayer". (Rev. Proc. 2001-10)	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706
(As Revised August 2004 for Decedents Dying After December 31, 2003
and Before January 1, 2005)

Decedent's Name: _____ Client Number: _____

Personal Representative(s): _____ Date of Death: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider:			
.1) Signed engagement letter.	_____	_____	_____
.2) Separate engagement letter for tax advice under the CPA client privilege provisions of § 7525.	_____	_____	_____
102) Obtain and review the following documents:			
.1) Certified copy of the will and other governing documents to ascertain the various provisions for distributions, payment of taxes, debts and administrative expenses.	_____	_____	_____
.2) Any trust(s) instruments and Forms 1041 to determine if the decedent was a grantor, trustee or beneficiary of any trusts, or held any interest or power in any trusts, to determine if any of the trust assets are includible in the gross estate.	_____	_____	_____
.3) Gift tax returns:			
.a) Determine if gift tax adjustments or examinations have been made or are being conducted by the IRS.	_____	_____	_____
.b) If no gift tax returns have been filed, consider if such returns should be filed. Note that the due date of Form 709 is the earlier of the due date of the Form 706 or April 15th of the year following the year the gifts were made.	_____	_____	_____
.c) Determine whether the statute of limitations has passed.	_____	_____	_____
.4) Prior income tax returns, gift tax returns, memos, workpapers and correspondence files.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
103) Obtain the following:			
.1) List of executor(s)/personal representative(s) names, addresses and Social Security (or employer ID) numbers.	_____	_____	_____
.2) Certified copy of the death certificate.	_____	_____	_____
.3) Certified copy of letters testamentary or administration.	_____	_____	_____
.4) Copy of any inventory of the decedent's assets.	_____	_____	_____
.5) A list of the following beneficiary information:			
.a) Full name and address.	_____	_____	_____
.b) Relationship to the decedent.	_____	_____	_____
.c) Social Security number or TIN of any trust beneficiary.	_____	_____	_____
.d) Date of birth.	_____	_____	_____
.e) Citizenship - USA or other.	_____	_____	_____
104) Determine the location of, and the persons with access to, any safety deposit box to which the decedent had access.	_____	_____	_____
105) For a decedent owning property in a community property state:			
.1) Determine if decedent had established an Alaska Community Property Trust.	_____	_____	_____
.2) Ascertain the separate, joint or community character of the property.	_____	_____	_____
106) Consider filing federal Form 56 regarding fiduciary relationship on behalf of:			
.1) CPA.	_____	_____	_____
.2) Attorney.	_____	_____	_____
.3) Executor/personal representative.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
107) Determine the need to hire an appraiser(s):			
.1) Review appraisers for expertise in particular areas of specialties.	_____	_____	_____
.2) Obtain appraisals if the estate includes any one article of artistic or collectible value in excess of \$3,000 or any collection of similar articles valued at more than \$10,000.	_____	_____	_____
.3) For appraisals involving real estate, consider the potential applicability of discounts for fractional interests (including costs of partition) and for potential environmental law exposure.	_____	_____	_____
.4) For appraisals involving businesses, consider the potential applicability of discounts, such as for minority interests, blockage, and contractual or statutory restrictions on transferability.	_____	_____	_____
.5) For property subject to an appraisal, consider using sales price for value, if sold within 9 months of death.	_____	_____	_____
108) Consider fractional interest discount for property held as tenants-in-common.	_____	_____	_____
109) Consider if disaster relief provisions apply.	_____	_____	_____
110) Consider special tax rate schedule for victims of terrorist attacks and US Armed Forces who died in combat (§ 2201 & Rev. Rul. 2002-86)	_____	_____	_____
111) Consider filing form 4810, Request for Prompt Assessment for the decedent's Form 1040s for the last 3 years and any Form 709s.	_____	_____	_____
112) Determine if the decedent has any "unclaimed property" with states where decedent resided or had business interests (www.unclaimed.org).	_____	_____	_____
200) ELECTIONS			
201) Consider the following:			
.1) Alternate valuation election. (Note that alternate valuation is not available unless both the gross estate and the estate tax liability are reduced as a result of the election.)	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Special use valuation for real property (checklist section #400).	_____	_____	_____
.3) Exclude up to 40% of the value of any land subject to a qualified conservation easement under § 2031(c).	_____	_____	_____
.4) Elect an alternate interest rate for valuation of annuities, etc. § 7520(a).	_____	_____	_____
.5) Deduct unpaid medical expenses on Form 706 or on the decedent's final Form 1040 (if such expenses are paid within one year after death).	_____	_____	_____
.6) Use of qualified disclaimer within nine months of decedent's death (§ 2518 and applicable state law).	_____	_____	_____
202) Marital deduction elections.			
.1) Qualified Terminable Interest Property (QTIP):			
.a) If a QTIP election is an available option under the will or other governing instrument, consider if that election should be made.	_____	_____	_____
.b) Consider extending the time for filing Form 706 to permit a more informed decision about making a QTIP election.	_____	_____	_____
.c) Consider option of partial QTIP election.	_____	_____	_____
.d) Consider applicability of state laws. (Note, some states do not recognize the QTIP election.)	_____	_____	_____
.2) Consider electing Qualified Domestic Trust (QDOT) status for transfers to a non-U.S. citizen's spouse.	_____	_____	_____
203) Generation-Skipping Transfer (GST) Tax.			
.1) Consider allocating the GST tax exemption (§§ 2631 and 2632).	_____	_____	_____
.2) Consider allocating the GST tax exemption based on the transferred property's value as of the first day of the month (Reg. § 26.2642-2(a)(2)).	_____	_____	_____
.3) Consider the reverse QTIP election (checklist item #2006).	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
204) Consider deferring payment of the estate tax:			
.1) Election to pay tax in installments for closely held business (§ 6166):			
.a) Apply attribution rules in determining whether gross estate includes 20% or more of a business interest. (§ 6166(b)(7))	_____	_____	_____
.b) Consider interest rate lowered to 2% on estate tax resulting from the first \$1,140,000 in value of a closely held business, for decedents dying in 2004.	_____	_____	_____
.c) Consider election to treat holding company stock as stock in a closely held business.	_____	_____	_____
.2) Election to defer estate tax attributable to reversionary or remainder interest. (§ 6163)	_____	_____	_____
.3) Request to defer estate tax for reasonable cause. (§ 6161)	_____	_____	_____
300) SCHEDULE A—REAL ESTATE			
301) If there is joint ownership, determine whether to report on Schedule E. (checklist item #801)	_____	_____	_____
302) Ascertain if decedent's interest is a split interest, e.g., life interest, remainder interest or term of years. If so, refer to appropriate actuarial tables.	_____	_____	_____
303) If split interest is owned with family member(s), refer to § 2702 and note effective date.	_____	_____	_____
304) Ascertain whether contract price or appraised values should be used as fair market value in case of sale pending at death.	_____	_____	_____
305) Cemetery lots:			
.1) Exclude lots for decedent and decedent's family from gross estate.	_____	_____	_____
.2) Include in gross estate additional cemetery lots that have market value.	_____	_____	_____
306) Consider environmental law exposure with all real estate owned. If environmental risk is present, consider adequate discount on asset.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
307) If property is security for a debt, show the debt separately on Schedule K, unless the debt is nonrecourse.	_____	_____	_____
400) SCHEDULE A-1—SPECIAL USE VALUATION			
401) Ascertain if the election is available for farm or other closely held business real property. (Note the opportunity period to correct certain failures under § 2032A.)	_____	_____	_____
402) Review all required documents for the election.	_____	_____	_____
403) Consider availability of cash rents leasing to another member of lineal decedent's family (§ 2032A(c)(7)(E)).	_____	_____	_____
404) If the election is available, determine the names, addresses, and tax identification numbers of the qualified heirs and other interested parties and their relationship to the decedent.	_____	_____	_____
405) Determine who will act as agent for the qualified heirs and other interested parties in dealings with the IRS on special use valuation matters.	_____	_____	_____
406) Consider making a woodlands election. (§ 2032A(e)(13))	_____	_____	_____
407) Consider informing qualified heirs of requirement to file Form 706-A for a disposition.	_____	_____	_____
500) SCHEDULE B—STOCKS AND BONDS			
501) If joint ownership, determine the need to report on Schedule E (checklist item #801).	_____	_____	_____
502) Ascertain issuer name, number of shares and par value, and description of security (including CUSIP number).	_____	_____	_____
.1) For bonds, indicate interest rate, maturity date and callable date (if applicable).	_____	_____	_____
.2) For stocks trading "ex-dividend" on the date of death, add the dividend amount to the ex-dividend quotation to determine the taxable value of the stock.	_____	_____	_____
.3) List accrued interest on bonds or dividend on stock separately as part of the same item number, immediately following the value of the bond or stock to which it relates.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Review valuation of securities in accordance with the regulations under § 2031. Note specific rules when valuation date is not a trading date.	_____	_____	_____
503) Ascertain whether “flower bonds” are includible in the gross estate. See Rev. Rul. 69-489 for valuation rules.	_____	_____	_____
504) Determine that Series H and HH bonds are included at face value.	_____	_____	_____
505) For Series E and EE savings bonds, value in accordance with the tables promulgated by the Treasury Department. Consider reporting deferred E/EE interest on final Form 1040 vs. passing out to beneficiaries with bonds or reporting on Form 1041 if assets stay in trust.	_____	_____	_____
506) Inquire whether there is closely held stock. (See checklist # 107 regarding appraisers.)	_____	_____	_____
.1) Review Reg. § 20.2031-2 and Rev. Ruls. 59-60 and 68-609 for valuation guidance.	_____	_____	_____
.2) Ascertain whether there have been sales of shares of stock or other company securities within a reasonable time period prior to or subsequent to death, and if so, determine the sales price and other information.	_____	_____	_____
.3) Consider the availability of marketability, minority and other valuation discounts.	_____	_____	_____
.4) Ascertain if a restricted transfer agreement (or other provision restricting transferability of the security) or a buy-sell agreement exists, and if so, whether its provisions affect estate tax value.	_____	_____	_____
.5) Determine if there is an estate freeze transaction in effect. If so, determine and document the likely impact of various reporting positions on the return.	_____	_____	_____
600) SCHEDULE C—MORTGAGES, NOTES AND CASH			
601) For joint accounts, determine amount includible in gross estate. Determine the need to report on Schedule E (checklist item #801).	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
602) For mortgages and notes receivable:			
.1) Determine value of mortgages and notes receivable (face amount unless discount factors or principal payments have reduced obligation).	_____	_____	_____
.2) Calculate accrued interest to date of death.	_____	_____	_____
603) Reconcile checking accounts to determine date of death balance.	_____	_____	_____
604) If any outstanding checks are for gifts made by the decedent, determine if these funds may be excluded from the gross estate. (Note IRS position in Rosano v US (245 F. 3d 212) that outstanding checks are not completed gifts)	_____	_____	_____
605) Inquire about any self-canceling installment sale notes. Such notes may be excludable from the decedent's gross estate.	_____	_____	_____
606) Convert foreign accounts or currency into U.S. equivalent as of the date of death or alternate valuation date, whichever is applicable.	_____	_____	_____
607) Ascertain the amount of cash on hand and/or undeposited checks at death.	_____	_____	_____
700) SCHEDULE D—LIFE INSURANCE ON DECEDENT'S LIFE			
701) Procure Form 712 for each life insurance policy on the decedent's life.	_____	_____	_____
702) With respect to life insurance on the decedent's life other than insurance payable to the decedent's estate, determine what, if any, incidents of ownership the decedent possessed at the time of death.	_____	_____	_____
703) If life insurance is held in trust, determine whether death proceeds are includible in the estate under § 2035 through § 2042.	_____	_____	_____
704) If decedent transferred a life insurance policy on his or her life within three years of death, determine if the proceeds are included in the gross estate. The transfer could involve one or more incidents of ownership.	_____	_____	_____
705) Inquire whether life insurance is owned by a closely held corporation in which the decedent held more than 50% of the voting power. Determine if:	_____	_____	_____
.1) It is includible in the gross estate as a separate item.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) It should be reflected in the valuation of the corporation.	_____	_____	_____
706) Determine if split-dollar insurance is includible in the estate. (If decedent is controlling shareholder, review Rev. Rul. 78-420.)	_____	_____	_____
707) Review Form 712 and split-dollar contract to determine appropriate inclusion.	_____	_____	_____
708) Determine if new split-dollar regulations apply.	_____	_____	_____
709) Inquire if there is group term life insurance and ascertain if it is includible.	_____	_____	_____
710) If decedent paid premiums on assigned life insurance policies, determine the effect, if any, on includibility in the estate.	_____	_____	_____
800) SCHEDULE E—JOINTLY OWNED PROPERTY			
801) For property owned as community property, or as tenants in common, determine that appropriate interests are included on the applicable schedules other than Schedule E.	_____	_____	_____
802) Determine correct description of property and type of joint interest.	_____	_____	_____
803) Ascertain source of funds for acquisition of jointly owned property, unless spouse is the only other owner, and document. (Presumption is that 100% of consideration is attributable to decedent.)	_____	_____	_____
804) Ascertain source of funds for acquisition of jointly owned property with spouse for joint interest created prior to 1977.	_____	_____	_____
900) SCHEDULE F—MISCELLANEOUS PROPERTY			
901) Determine if the decedent had any rights(s) to payments for services performed prior to death, such as rights to accrued salary, accrued vacation pay, and nonqualified deferred compensation. (Note that payments receivable at time of death may be eligible for the income tax deduction for estate tax attributable to income in respect of a decedent under § 691.)	_____	_____	_____
902) Include appropriate value of life insurance on the life of another (obtain Form 712).	_____	_____	_____
903) Review personal property insurance policies to identify includible items.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
904) Determine if other miscellaneous items are includible, such as:			
.1) Decedent's share of federal, state, local or foreign income tax overpayment. (Reg. § 20.2053-6(f))	_____	_____	_____
.2) Prepaid items.	_____	_____	_____
.3) Decedent's after-tax contributions to qualified plans.	_____	_____	_____
.4) Vehicles, boats, and other similar property.	_____	_____	_____
.5) Personal belongings, including collectibles.	_____	_____	_____
.6) Rent, royalty, interest (other than bond interest), and trust income accrued but unpaid at death.	_____	_____	_____
.7) Non-mineral royalties and leaseholds.	_____	_____	_____
.8) Qualified state tuition program:			
a) Amounts distributed to decedent.	_____	_____	_____
b) Unrecognized excess contributions.	_____	_____	_____
.9) If decedent died in an accidental death, determine if any recovery by the estate for damages are includible in the estate (Rev. Rul. 75-127). (May require analysis of applicable state law.)	_____	_____	_____
.10) Income tax refunds.	_____	_____	_____
.11) Other refunds.	_____	_____	_____
.12) Timber, crops and/or livestock.	_____	_____	_____
905) Inquire if the decedent held an interest in a sole proprietorship, partnership, LLC, or joint venture. (Reg. § 20.2031-3) (See checklist # 107 regarding appraisers.)	_____	_____	_____
.1) Ascertain if, within a reasonable period prior to or subsequent to death, there have been sales of an interest in the entity in which the decedent had an interest. If so, determine the sale price and other relevant information.	_____	_____	_____
.2) Consider the availability of marketability, minority and other valuation discounts.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Ascertain if any restricted transfer agreement (or other provision restricting transferability of the security) or a buy-sell agreement exists, and if so, determine if its provisions affect the estate tax value.	_____	_____	_____
.4) Inquire if there is an estate freeze transaction in effect. If so, determine the likely impact of various reporting positions on the return, and document.	_____	_____	_____
.5) Notify general partner of partnership of availability of adjusting deceased partners' interest in underlying assets. (§ 754)	_____	_____	_____
906) Include decedent's interest in qualified terminable interest property for which a valid QTIP election was made earlier at spouse's death.	_____	_____	_____
.1) Obtain spouse's Form 706.	_____	_____	_____
.2) Check for partial QTIP election.	_____	_____	_____
.3) Include accrued and undistributed income, if governing instrument requires distribution to decedent's estate.	_____	_____	_____
907) Review will or other documents (e.g., revocable trust) for transfers of specific assets and determine if identified property was owned at death.	_____	_____	_____
908) Determine if decedent was a beneficiary of a trust to which he is entitled to accrued income prior to death.	_____	_____	_____
1000) SCHEDULE G—TRANSFERS DURING LIFE			
1001) Determine if gift tax was paid on gifts made within three years before death. The gift tax is includible if the decedent paid the gift tax, even if the decedent's spouse was the actual donor. (See PLR 9642001.)	_____	_____	_____
1002) Note lifetime transfers (other than outright transfers not in trust and bona fide sales) of decedent in Schedule G, whether or not includible in the gross estate. Attach copies of applicable documents.	_____	_____	_____
1003) Review trusts for power(s) of grantor (e.g., power to change trustee). If grantor may appoint a related or subordinate party, the trust assets could be includible (Rev. Rul. 95-58).	_____	_____	_____
1004) Notify donee of basis of includible gifts made within three years of death. (§ 2035(a))	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1005) Inquire about gifts with retained interests made by decedent. Value at date of death, even if:			
.1) Not owned by donee.	_____	_____	_____
.2) Charitable deduction is available as an offset on Schedule O.	_____	_____	_____
1006) Review rules for inclusion of gifts for which gift splitting was elected.	_____	_____	_____
1007) Determine if the assets in a custodial account are includable if the decedent was the donor and the custodian.	_____	_____	_____
1100) SCHEDULE H—POWERS OF APPOINTMENT			
1101) Review rules on valuation of property over which the decedent held a general power, including any partial interest. (Reg. § 20.2041-3).	_____	_____	_____
1102) Check for “5 and 5 powers” (§ 2041(b)(2)) which existed for the entire year of death and caused the property subject to the power to be included in the gross estate as a result of the power not having lapsed at death.	_____	_____	_____
1103) Check for lapse of “Crummey” right of withdrawal if decedent was the beneficiary of a trust.	_____	_____	_____
1200) SCHEDULE I—ANNUITIES AND RETIREMENT BENEFITS			
1201) Determine if any annuities can be excluded under the transitional rules of TEFRA and the Revenue Act of 1984.	_____	_____	_____
1202) Verify amount of benefit includible. Include amounts attributable to employer contributions to retirement plans. Amounts attributable to employee after-tax contributions should be listed on Schedule F (Checklist item #904.3).	_____	_____	_____
1300) SCHEDULE J—ADMINISTRATION EXPENSES			
1301) Inquire as to funeral expenses advanced to the estate by others.	_____	_____	_____
1302) Ascertain if funeral expenses are to be reduced for VA benefits and for Social Security death benefits payable to other than decedent’s spouse.	_____	_____	_____
1303) Inquire if attorney, accountant and/or executor fees will be paid, agreed to, or estimated.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1304) Consult will or other governing instruments and applicable state law for provisions regarding executor fees and other professional fees.	_____	_____	_____
1305) If there are co-executors, determine if each will receive an executor fee and determine the amount.	_____	_____	_____
1306) Determine whether to deduct administrative expenses (e.g., professional fees, property taxes, interest expense) on Form 706 or the estate's Form 1041.	_____	_____	_____
1307) Determine that all expenses included on Schedule J are reasonable, taking into account applicable state law.	_____	_____	_____
1308) Deduct interest paid on funds borrowed to pay death taxes and post-death interest on federal and state income tax deficiencies if incurred with respect to contesting tax liabilities.	_____	_____	_____
1309) If estate tax liability has been deferred under § 6166 by estate borrowing funds, determine if interest on borrowed funds is deductible. (PLR200020011)	_____	_____	_____
1310) Consider deducting the cost of maintaining or storing estate property.	_____	_____	_____
1311) Consider if cost of maintaining and/or selling assets was necessary in order to pay estate tax liability.	_____	_____	_____
1400) SCHEDULE K—DEBTS OF DECEDENT, MORTGAGES AND LIENS			
1401) Reference real property indebtedness to the Schedule A, E, F, G, or H asset to which it relates.	_____	_____	_____
1402) Review items which may also be deducted for federal income tax purposes (deductions in respect of decedent).	_____	_____	_____
1403) Determine if gift or income tax was payable at death. See Reg. § 20.2053-6(f) for allocation of income tax liability of the decedent and surviving spouse for joint return for the year of death.	_____	_____	_____
1404) Consider the support or alimony obligation of decedent under divorce decree or settlement.	_____	_____	_____
1405) Consider listing on Schedule K amounts relating to contingent liabilities, such as pending or threatened litigation.	_____	_____	_____
1406) Compile outstanding checks which may represent debts of estate.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1407) Consider real estate taxes which may be a lien in some states as of January 1, even though not payable until later in the year.	_____	_____	_____
1408) Consider intangible or other state specific taxes that may be an obligation of decedent prior to death.	_____	_____	_____
1409) Obtain copies of all claims filed with the Probate Court.	_____	_____	_____
1410) Determine if the decedent was subject to any personal guarantees.	_____	_____	_____
1500) SCHEDULE L—NET LOSSES DURING ADMINISTRATION AND EXPENSES INCURRED IN ADMINISTERING PROPERTY NOT SUBJECT TO CLAIMS			
1501) Deduct casualty losses not taken on the federal income tax return for the estate. Use value reflected on federal estate tax return.	_____	_____	_____
1502) Deduct expenses for settlement of title or collection of assets not included in decedent's probate estate. Do not deduct expenses incurred on behalf of beneficiaries. (Reg. § 20.2053-8)	_____	_____	_____
1503) Determine details of payments and maintain documentation. Note that the time limit on deductible payment is the applicable period of limitations on assessment of estate tax. (§ 6501)	_____	_____	_____
1600) SCHEDULE M—BEQUESTS TO SURVIVING SPOUSE			
1601) Identify and document all probate property passing to the surviving spouse.	_____	_____	_____
1602) Identify and document all non-probate property which passes to the surviving spouse (e.g., life insurance, employee plan death benefits and certain jointly owned property).	_____	_____	_____
1603) Determine and document if the marital property bears any part of the taxes, debts or administrative expenses of the estate under the terms of the decedent's will or other governing document.	_____	_____	_____
1604) Consider requirements waiving right of recovery of estate tax attributable to the inclusion of QTIP property and/or property includible under § 2036.	_____	_____	_____
1605) Consider using a qualified disclaimer to expand or reduce the marital deduction of the estate. Review § 2518 and applicable state law.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1606) Determine if the will creates a limited marital deduction under a "maximum marital deduction" formula clause in the transitional rule of ERTA 1981.	_____	_____	_____
1607) If a QTIP election is to be made:	_____	_____	_____
.1) Determine values and document.	_____	_____	_____
.2) Consider election of only a fractional or percentage share. (Reg. § 20.2056(b)-7(b)(2))	_____	_____	_____
.3) Insure proper treatment on Schedule M.	_____	_____	_____
1608) If the surviving spouse is not an U.S. citizen, then additional requirements must be met before a marital deduction is available. See Qualified Domestic Trust (QDOT) rules of § 2056A.	_____	_____	_____
1700) SCHEDULE O—CHARITABLE PUBLIC AND SIMILAR GIFTS AND BEQUESTS			
1701) Identify and document items passing under the will or other governing instrument to qualified charities.	_____	_____	_____
1702) Review the will or other governing instruments giving rise to charitable deductions involving charitable split-interest trusts or bequests.	_____	_____	_____
1703) Determine if charitable gifts or bequests bear any of the estate's taxes, debts, or administrative expenses.	_____	_____	_____
1704) Consider using a qualified disclaimer to expand or reduce the charitable deduction of the estate. Review § 2518 and applicable state law.	_____	_____	_____
1705) Determine if charitable split-interest trust requires reformation in order to obtain estate tax charitable deduction.	_____	_____	_____
1706) Obtain certified copies of all recorded documents for all lifetime transfers to be listed. If document of transfer was not recorded, obtain verified copies.	_____	_____	_____
1707) Obtain documentation verifying tax exempt status of all charitable beneficiaries.	_____	_____	_____
1708) If the will or trust directs creation of a charitable foundation, be certain entity qualifies prior to due date for filing estate tax return.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
1800) SCHEDULE P—CREDIT FOR FOREIGN DEATH TAXES			
1801) Obtain and complete Form(s) 706CE for foreign death tax credit claim. (Note: a U.S. possession is treated as a foreign country.)	_____	_____	_____
1802) Consider the benefit of claiming credit or deduction as administration expense.	_____	_____	_____
1803) Consult applicable treaty for possible additional credit available.	_____	_____	_____
1804) Calculate credit under each available alternative to determine best result.	_____	_____	_____
1900) SCHEDULE Q—CREDIT FOR PRIOR TRANSFERS			
1901) Determine if decedent acquired property within the ten-year period ending with death or received property from a transferor who died within two years after decedent's death. If so, obtain a copy of the transferor's estate tax return in order to calculate the credit.	_____	_____	_____
1902) Review the definition of "property" under § 2013(e) received by the decedent for purposes of claiming the credit.	_____	_____	_____
1903) Determine if credit is available if the transferee (decedent) was the transferor's spouse and the marital deduction was allowed to the transferor's estate for the property.	_____	_____	_____
1904) Determine if transferor's estate elected special use valuation and became subject to the additional estate tax of § 2032A(c) as a result of its disposition or cessation of qualified use at any time up to two years after the death.	_____	_____	_____
1905) Review § 2056(d)(3) for specific rules allowing a credit for certain transfers to a spouse who was not a U.S. citizen when the property passed outright to the spouse, or to a QDOT.	_____	_____	_____
1906) If property was acquired from more than one transferor, calculate allowable credit separately with respect to each transferor.	_____	_____	_____
2000) SCHEDULES R AND R-1—GENERATION-SKIPPING TRANSFER (GST) TAX			
2001) Review copies of trusts (and related tax returns), life insurance policies or other lifetime arrangements which decedent created for generation-skipping provisions.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
2002) Review lifetime transfers and determine if the GST tax implications have been properly reflected on gift tax returns filed by the decedent (and the decedent's spouse and/or former spouses), considering the allocation of the decedent's one-time \$2,000,000 per grandchild exclusion (for certain transfers made before January 1, 1990) and the \$1,060,000 lifetime exemption (indexed for inflation for years after 2001). (§ 2631)	_____	_____	_____
.1) If a deemed allocation under § 2632(b) occurred with respect to certain transfers (made before January 1, 1990) not reported on gift tax returns, determine the impact on the \$2 million exclusion.	_____	_____	_____
.2) Determine if automatic allocation rules of § 2632(a) apply.	_____	_____	_____
.3) Review gift tax returns and prior gifts to determine if automatic allocation of GST lifetime-exemption was applicable.	_____	_____	_____
.4) If allocation of the lifetime exemption (\$1,500,000 for 2004 deaths) was not made on a timely filed gift tax return or deemed made under § 2632 (b)(1), determine that values at the time of allocation are calculated and that a filing is made to allocate such amount. (§ 2642(b)(3))	_____	_____	_____
5) Consider seeking relief under § 2642(g) to have the date of transfer values apply to the transfers to a trust.	_____	_____	_____
.6) Note late allocation of indexed amount permitted to trust.	_____	_____	_____
.7) Consider election to sever a trust for GST purposes under § 2642(a)(3).	_____	_____	_____
2003) If decedent was incompetent at death, inquire when the decedent became incompetent. Review the transitional rules which exempt from tax certain transfers occurring at death where the decedent was incompetent on October 22, 1986, and continually thereafter until death.	_____	_____	_____
2004) If decedent created an irrevocable trust before September 26, 1985, determine if additions to the trust (actual or constructive) were made after September 25, 1985.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
2005) Review trusts created after September 25, 1985, which have received property from trusts created before that date through the exercise of a special power of appointment. Grandfathering of an exemption from tax liability may arise under Reg. § 26.2601-1(b)(4) and Reg. § 26.2601-1(b)(1)(v)(B).	_____	_____	_____
2006) Determine if a “reverse qualified terminable interest property election” under § 2652(a)(3) should be made to treat the decedent as a transferor for GST tax purposes for marital transfers for which a QTIP election was made under § 2056(b)(7). If so, review formulas for reverse QTIP elections and separate marital trusts created thereby. (Note election is made by listing the qualifying property in Part I of Schedule R.)	_____	_____	_____
2007) Determine if a “reverse qualified terminable interest property election” was made by decedent’s predeceased spouse, and an allocation of the GST tax exemption made on such spouse’s estate tax return.	_____	_____	_____
.1) Determine if estate tax payment from a source outside the decedent’s estate (e.g., insurance trust) is a constructive addition to this otherwise exempt amount.	_____	_____	_____
.2) If no such election was made for QTIP property in which the decedent had a qualifying income interest for life, consider if the decedent’s GST tax exemption under § 2631 should be allocated to the trust.	_____	_____	_____
2008) Consider impact on the tax calculation of use of alternate valuation election under § 2032.	_____	_____	_____
2009) Consider impact on the tax calculation of the use of the special use valuation election under § 2032A.	_____	_____	_____
2010) Determine if there was consideration paid by the donee in a generation-skipping transfer which would reduce the amount subject to GST tax.	_____	_____	_____
2011) Review life insurance trusts and other trusts created after March 31, 1988, to determine if trust’s use of “Crummey powers” to create nontaxable gifts for gift tax purposes will also be eligible for the annual exclusion for GST tax purposes. (§ 2642(c))	_____	_____	_____
2012) Determine the amount of GST tax exemption used in the payment of insurance premiums.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
2013) Review charitable lead annuity trusts created after September 25, 1985, for GST tax impact on the computation of the exclusion ratio, and consider the impact on the inclusion ratio of property transferred to the trust after October 13, 1987. (§ 2642(e))	_____	_____	_____
2014) Review transfers to persons unrelated to the decedent who are more than 37½ years younger to determine whether allocation of the GST tax exemption under § 2631 should be made. (§ 2651(d))	_____	_____	_____
2015) Review the consequences of qualified disclaimer(s) on potential GST tax transfers. Consider the use of a qualified disclaimer to maximize the decedent's GST tax exemption. Review § 2518 and applicable state law.	_____	_____	_____
2016) Determine if transferred property (which would otherwise be a generation-skipping transfer) was previously subject to gift tax. Under certain circumstances, such transfers are not GST tax transfers under § 2611(b).	_____	_____	_____
2017) Determine if the GST tax allocation is appropriate for a grantor retained interest trust where the grantor died during the term of the trust.	_____	_____	_____
2018) Consider use of the GST tax exemption for a credit shelter trust or a charitable remainder trust, whichever is applicable, as well as a general review of the proper allocation of any remaining exemption.	_____	_____	_____
2019) If a pecuniary formula marital deduction bequest is made, consider applicability of the GST tax where the decedent's estate appreciated between the date of death and the date of funding. Funding under these circumstances is to occur using date of death values.	_____	_____	_____
2020) If there are no living lineal heirs and beneficiaries include collateral heirs, review § 2651(e) for GST exception for deceased parent rule expanded to include collateral heirs.	_____	_____	_____
2021) Consider extension to elect to allocate GST exemption (§2642(g)).	_____	_____	_____
2100) SCHEDULE U—QUALIFIED CONSERVATION EASEMENT EXCLUSION			
2101) Determine that exclusion is limited to \$500,000.	_____	_____	_____

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
2200) MISCELLANEOUS			
2201) Prepare applicable state(s) return and allocate tax between states as appropriate. (Note many states are changing estate tax laws in response to recent federal legislation)	_____	_____	_____
2202) Verify that all executors or other personal representatives have signed the return.	_____	_____	_____
2203) Consider notifying all interested parties, such as partnerships and beneficiaries, of estate tax values.	_____	_____	_____
2204) Consider drafting transmittal letter to IRS and/or state(s). Note proper IRS and state processing centers.	_____	_____	_____
2205) Consider § 2204 election to limit exposure to federal estate tax by personal representative.	_____	_____	_____
2206) Consider expatriation provisions in §§ 2107(a), (b)(2), (c)(2), (c)(3) and 2501(a)(3).	_____	_____	_____
2207) After Internal Revenue Service closing letter arrives, notify any states where estate tax returns have been filed and request their closing on the estate return.	_____	_____	_____
2208) For minimum required distributions from a qualified retirement plan or an IRA, consider:			
.1) Selection of designated beneficiary.	_____	_____	_____
.2) Required distribution for the year of death was made.	_____	_____	_____
2209) Attach the following to Form 706:			
• Death certificate			
• Certified copy of will			
• Forms 712			
• Forms 709			
• Forms 709-A			
• Forms 706 CE			
• Form 4768			
• Form 2848 or 8821			
• Trust and Power of Appointment Instruments			
• State certification or evidence of payment of death taxes			
• Appraisals			
• Other documentation as determined necessary to support items on the return			

UNITED STATES ESTATE (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN PREPARATION AND REVIEW CHECKLIST
FORM 706

2300) AUDIT TRIGGER REMINDERS

- Substantial real estate holdings.
- Closely-held stock.
- Life insurance excluded from the estate.
- Jointly-held (other than with spouse) property excluded, in whole or part, from the estate.
- Miscellaneous personal property.
- Transfers within three years of death.
- Alternate valuation.
- Special use valuation.
- Family limited liability entities.
- Valuation discounts.
- Discounts for potential environmental cleanup costs.

COMMENTS OR PLANNING SUGGESTIONS

U.S. GIFT (AND GENERATION-SKIPPING TRANSFER) TAX RETURN CHECKLIST
2004 - FORM 709
(For Gifts Made During Calendar Year 2004)

ClientName: _____ Client Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider:			
.1) Signed engagement letter.	_____	_____	_____
.2) Separate engagement letter for tax advice under the CPA client privilege provisions of § 7525.	_____	_____	_____
102) Determine if the taxpayer (donor) is required to file a gift tax return for transfers such as:			
.1) Gift to donee of a present interest in property with a value in excess of \$11,000. Consider the following exceptions:	_____	_____	_____
.a) Transfers to political organizations.	_____	_____	_____
.b) Tuition at a qualified educational institution and medical expenses paid directly by the donor.	_____	_____	_____
.c) Gifts to charities. Exception does not apply to charitable gifts of partial interest.	_____	_____	_____
.2) Gift of future interest of any amount.	_____	_____	_____
.3) Gift of <u>any</u> amount for which a gift-splitting election is made.	_____	_____	_____
.4) Gift to non-U.S. citizen spouse in excess of \$114,000.	_____	_____	_____
.5) Gift to non-U.S. citizen spouse of a terminable interest (regardless of amount). Note exception for certain life estates with a power of appointment.	_____	_____	_____
.6) Gift of qualified terminable interest property (QTIP) of any amount.	_____	_____	_____
.7) Gift by nonresident, non-U.S. citizen of tangible U.S. situs property in excess of limitations previously described. Note special rule that taxes gifts of intangible property in certain cases.	_____	_____	_____

U.S. GIFT (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN CHECKLIST
2004 - FORM 709

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.8) Gift of intangible property by nonresident who terminated U.S. citizenship or residency within the 10-year period ending on the date of transfer.	_____	_____	_____
.9) Gift that qualifies as an annual exclusion gift for gift tax purposes but not Generation-Skipping Transfer (GST) tax purposes.	_____	_____	_____
.10) Gift that qualifies as an annual exclusion gift for gift tax purposes to which generation-skipping transfer tax would be allocated unless the donor "opts out" of automatic allocation.	_____	_____	_____
103) If the return is being prepared for deceased donor, ascertain proper due date if donor died prior to July 15 of the gift year.	_____	_____	_____
104) If donor is married:			
.1) Determine if gifts are to be treated as "split" with donor's spouse. (Note that spouse's consent and a separate Form 709 is required.)	_____	_____	_____
.2) If the election is to be made, determine that:			
.a) All gifts are split.	_____	_____	_____
.b) The gifts are listed on both returns.	_____	_____	_____
105) Determine the need to hire a qualified appraiser(s). Appraisals involving real estate should consider the potential applicability of discounts for fractional interests (including costs of partition) and for potential environmental law exposure. Appraisals involving businesses should consider the potential applicability of discounts for minority interests, blockage, and contractual or statutory restrictions on transferability.	_____	_____	_____
106) If a valuation discount is taken, check the box and attach computation and related support.	_____	_____	_____
107) Consider the potential gift tax implications of the following:			
.1) Lapse or release of a general power of appointment.	_____	_____	_____
.2) Formation or recapitalization of a closely held corporation, partnership, or LLC.	_____	_____	_____

U.S. GIFT (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN CHECKLIST
2004 - FORM 709

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Creation or transfer of below-market interests. (§ 7520)	_____	_____	_____
.4) Payment of insurance premiums on life insurance policy owned by someone other than the insured.	_____	_____	_____
108) Consider having the donee execute a qualified disclaimer of the gifted property to remove the property from his or her gross estate.	_____	_____	_____
109) Review trust or other document and obtain copies of the Crummey letters to insure that any gifts will be treated as present interest.	_____	_____	_____
110) Consider if disaster relief provisions apply.	_____	_____	_____
200) SCHEDULE A—COMPUTATION OF TAXABLE GIFTS			
201) Determine if transfers were made to grandchildren or other “skip” persons.	_____	_____	_____
202) If transfers were made to a trust:			
.1) Attach a certified copy of the trust document to Form 709 for the first gift to the trust, or a simple copy for the subsequent gifts.	_____	_____	_____
.2) Obtain trust’s TIN and required information about trust’s beneficiaries.	_____	_____	_____
203) For real estate, attach a copy of the appraisal, deed, and the legal description for each parcel. Review and make note of any retained interest.	_____	_____	_____
204) For an interest in a closely-held business, attach the required financial data and an appraisal or calculation of the per share value.	_____	_____	_____
205) Consider the special valuation rules and elections pursuant to § 2701 for transfers of certain interests in corporations, partnerships, and LLCs.	_____	_____	_____
206) Consider the special valuation rules of § 2702 for transfers in trust.	_____	_____	_____
207) For publicly traded stock, include number of shares, common or preferred and CUSIP number, if available.	_____	_____	_____

U.S. GIFT (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN CHECKLIST
2004 - FORM 709

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
208) For notes, include name of maker, maturity date, principal amount, unpaid principal, interest rate, compounding and date to which interest has been paid.	_____	_____	_____
209) For life insurance policies, include insurer, policy number and a completed Form 712 Life Insurance Statement.	_____	_____	_____
210) Consider the availability of marketability, minority and other valuation discounts and adequately document such discounts.	_____	_____	_____
211) If gift taxes are payable, determine if any of the gift tax will be paid by donee. (Rev. Rul. 75-72)	_____	_____	_____
212) Reconcile basis of gifts of depreciable property to income tax depreciation records.	_____	_____	_____
213) Determine that gifts which qualify for the political organization, educational or medical exclusion are not listed.	_____	_____	_____
300) SCHEDULE B—GIFTS FROM PRIOR PERIODS			
301) Obtain and review prior gift tax returns.	_____	_____	_____
302) Inquire as to the existence of prior unreported gifts. Consider the need to file delinquent returns.	_____	_____	_____
303) If prior taxable gifts were unreported, recalculate the amount of unified credit claimed.	_____	_____	_____
400) SCHEDULE C—GENERATION-SKIPPING TRANSFER (GST) TAX			
401) Determine if the gift tax annual exclusion is allowable for GST purposes. For GST tax purposes, a nontaxable transfer must meet the following requirements in addition to the requirements for the normal gift tax annual exclusions:			
.1) It is a direct skip (the trust must be a skip person); and	_____	_____	_____
.2) During the beneficiary's lifetime, the trust principal may be distributed only to such individual; and	_____	_____	_____
.3) If the beneficiary dies before the trust terminates, the trust assets must be includible in the beneficiary's gross estate.	_____	_____	_____
402) Review gift tax returns after 1985 for use of the GST tax-exemption.	_____	_____	_____

U.S. GIFT (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN CHECKLIST
2004 - FORM 709

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
403) If client elects out of automatic allocation of GST exemption:			
.1) Consider confirming with client, preferably in writing.	_____	_____	_____
.2) Check the appropriate box and attach the election statement. (Note the filing of the Form 709 accompanied by payment of the GST will qualify for the statement.)	_____	_____	_____
404) Consider making late GST exemption allocations to previously unreported gifts. Note the distinction between life insurance and other assets. A sample notice of late allocation of GST exemption is in the Tax Form Preparation Guide of this package.	_____	_____	_____
405) Consider documenting in a transmittal letter the client decision to allocate/not allocate GST exemption. A sample transmittal letter is in the Tax Form Preparation Guide of this package.	_____	_____	_____
406) Consider the use of formula language, instead of a stated amount, to allocate GST exemption. A sample GST exemption allocation is in the Tax Form Preparation Guide of this package.	_____	_____	_____
407) Consider special QTIP election (reverse QTIP) for gifts in trust where a QTIP election has been made.	_____	_____	_____
408) Consider seeking relief under § 2642(g) for transfers in trust with unintended GST tax consequences.	_____	_____	_____
500) OTHER REQUIREMENTS			
501) Consider disclosure of all gifts subject to valuation. Adequate disclosure is necessary in order to start the statute of limitations with respect to such gifts. Consider filing return for gifts under \$11,000. (Reg. § 391.6501(c)-1)	_____	_____	_____
502) Consider state gift tax return filing requirements.	_____	_____	_____
503) Consider need to file information return for gifts received by U.S. persons from foreign donors under § 6039F.	_____	_____	_____
504) Consider availability of GST indexing. Note that late allocation of indexed amount is permitted to trust.	_____	_____	_____
505) Consider election under § 529(c)(2)(b) if donor made gift in excess of \$11,000 to a qualified state tuition program on behalf of any individual beneficiary.	_____	_____	_____

U.S. GIFT (AND GENERATION-SKIPPING TRANSFER)
TAX RETURN CHECKLIST
2003-FORM 709

506) Attach Form 4868 or other extension request.

507) Determine that both gift tax returns of spouses who elect to split gifts
are mailed in the same envelope.

COMMENTS OR PLANNING SUGGESTIONS

TAX-EXEMPT ORGANIZATION CHECKLIST

The checklists developed by the Committee are contained on the following pages. They are intended to highlight certain items critical to the preparation of the return without reiterating the detailed instructions provided by the IRS.

The Committee has also prepared an Organizer for Tax Exempt Organizations which is a good source for more detailed information necessary to prepare Form 990. The Organizer can be used to gather the necessary information from the client as well as to assist the preparer in completion of the return.

The organizer is located in the Practice Guides section of the materials.

MINI-CHECKLIST

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX

2004 - FORM 990

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION			2. Determine if a partnership, LLC or S corporation interest is owned.	___	___
1. Consider signed engagement / separate privilege engagement letter.	___	___	3. Determine if there is debt-financed property.	___	___
2. Review prior year returns, workpapers, correspondence, planning suggestions and audit results.	___	___	4. Review royalty agreements.	___	___
3. Review IRS determination letter.	___	___	5. Review organization's website.	___	___
4. Review activities for exempt qualification.	___	___	6. Complete Form 990-T checklist if any of the above exist.	___	___
5. Consider filing Form 990-EZ.	___	___	MISCELLANEOUS		
6. Consider gross receipts test.	___	___	1. Verify that statements in Parts III & VIII correspond.	___	___
7. If a private foundation, prepare Form 990PF.	___	___	2. Inquire if required information returns were filed.	___	___
8. Determine if there are related organizations.	___	___	3. Inquire if employment taxes paid/timely deposited.	___	___
9. Consider any change in activities.	___	___	4. Review independent contractor arrangements.	___	___
10. Consider filing a group return.	___	___	5. Consider a § 501(h) election for lobbying expenditures.	___	___
11. Determine if state return or registration is required.	___	___	6. For lobbying expenses, inquire whether the organization has elected to pay the proxy tax or report the unallowable portion to members – §§ 501(c)(4),(5),(6).	___	___
12. Consider if disaster relief provisions apply.	___	___	7. Determine if Form 8282 is required for sales of donated property.	___	___
REVENUE / EXPENSES			8. Determine, and disclose taxes paid, relative to excess benefit transactions, excess expenditures to influence legislation, disqualifying lobbying or excess political expenditures.	___	___
1. List all officers, directors, advisors, consultants and compensation/benefits. (Automatic Excess Benefit)	___	___	9. Inquire if organization wants to establish a § 401(k) plan.	___	___
2. List program services rendered and revenue therefrom.	___	___	10. Determine if a series Form 5500 is required.	___	___
3. Ensure that cash method of accounting is used in Schedule A, Part IV-A.	___	___	11. Inquire if required contemporaneous substantiations were provided on donations of \$250 or more.	___	___
4. Determine if donated services and facilities are excluded from Parts I and II.	___	___	12. Inquire if required statement was provided to donor for <i>quid pro quo</i> contribution over \$75 received.	___	___
5. Verify that the contribution portion of receipts from fundraising is reported on line 1a.	___	___	13. Update permanent file schedule of cumulative contributions by donor.	___	___
6. Break out expenses for line 9b that have been netted in the financial statements.	___	___	14. Advise client to make annual information returns available for public inspection for 3 years from filing date.	___	___
7. Complete Part IV A & B if the organization has adopted SFAS 116 and 117.	___	___	15. Report the number of employees on the payroll as of March 12th.	___	___
8. Update permanent file schedule of cost for investments that are carried at market.	___	___	16. Attach extension requests.	___	___
BALANCE SHEET			17. Prepare filing instructions/transmittal. (Note all returns now filed in Ogden)	___	___
1. Attach schedule reconciling opening balance sheet if changes made for SFAS 117.	___	___	18. Note tax planning suggestions. (Consider IRS market segment study – §§ 501(c)(5),(6),(7).)	___	___
2. Cross reference net assets to page 1.	___	___	19. Determine if tax shelter disclosure statement required.	___	___
UBIT GENERAL INFORMATION			20. Prepare public inspection copy of Form 990.	___	___
1. Determine if there is an unrelated trade or business.	___	___			

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider:			
.1) Signed engagement letter.	_____	_____	_____
.2) Separate engagement letter for tax advice under the CPA-client privilege under provisions of § 7525.	_____	_____	_____
102) Review and update the organization's name, address, fiscal year, TIN, type of organization, and IRS and state processing center.	_____	_____	_____
103) Review prior year returns, memos, workpapers and correspondence, planning suggestions and audit results.	_____	_____	_____
104) Review permanent file and IRS determination letter.	_____	_____	_____
105) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
106) Inquire if the organization has made or received any below-market-rate loans. If so, determine imputed interest consequences.	_____	_____	_____
107) If the organization has been examined by the IRS or state taxing authorities:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine if the agent's adjustments affect returns for years other than those audited.	_____	_____	_____
108) Consider if disaster relief provisions apply.	_____	_____	_____
200) DETERMINE THE APPROPRIATE FORMS TO FILE			
201) If the organization is exempt from tax under § 501(a), review the IRS list of organizations excepted from filing annual returns.	_____	_____	_____
202) Determine if the organization meets the gross receipts filing requirement test.	_____	_____	_____
203) Determine if the organization is eligible to file Form 990-EZ.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
204) Determine if the organization is a private foundation that is required to file Form 990-PF.	_____	_____	_____
205) If the organization is a nonexempt charitable trust (described in § 4947(a)(1)), determine if:			
.1) The organization is treated as a private foundation, required to file Form 990-PF.	_____	_____	_____
.2) Form 1041 is required.	_____	_____	_____
206) Consider filing a group return under a separate TIN (election is due at least 90 days before close of accounting period). (Rev. Proc. 80-27):			
.1) If group return was elected, determine that all members are properly reflected.	_____	_____	_____
.2) If a member elects out of the group return, determine that proper notification has been sent to the IRS.	_____	_____	_____
207) Determine if a state return or registration statement is required. (Note fundraising in some states may result in a state filing requirement.)	_____	_____	_____
208) For § 501(c)(3) organizations, complete Schedule A.	_____	_____	_____
209) For § 501(c)(7) organizations, determine if the organization satisfies the gross receipts test required for maintaining its exemption.	_____	_____	_____
210) For § 501(c)(12) organizations, determine if the organization satisfies the gross income test necessary for exempt status.	_____	_____	_____
300) REVENUE			
301) Contributions:			
.1) Determine that grants received as payment for services are reported as program service revenue and not as contributions.	_____	_____	_____
.2) Inquire if non-cash contributions were received:			
.a) Determine that donated services, materials, or facilities are excluded in Parts I & II.	_____	_____	_____
.b) For any non-cash contribution that is subject to an outstanding debt, determine that the asset has been recorded at its full market value and that the debt has been recorded as a liability.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.c) For other non-cash contributions, determine that the contributions have been reported at their market value as of the date of the contribution.	_____	_____	_____
.3) When classifying contributions for reporting purposes, determine that:			
.a) Membership dues and assessments representing contributions rather than payments for benefits received are reported as direct public support.	_____	_____	_____
.b) The contribution portion of receipts from fundraising activities is reported as direct public support. (Note fund-raising related expenses.)	_____	_____	_____
.c) Contributions received from other closely associated organizations are reported as indirect public support.	_____	_____	_____
.d) Contributions received from federated fundraising agencies (such as the United Way) through general solicitation campaigns are reported as indirect public support.	_____	_____	_____
.4) Complete schedule B to report donors giving \$5,000 or more or 2% of line (d) whichever is higher, if applicable.	_____	_____	_____
.5) Determine if a) the list of contributors is labeled "Not Open for Public Inspection" b) can easily be separated from the rest of the tax return. (Consider impact of e-filing.)	_____	_____	_____
.6) For a <i>quid pro quo</i> contribution in excess of \$75 received by a charitable organization, ascertain that a written statement to the donor was provided that:			
.a) Informs the donor that the amount of the contribution that is deductible is limited to the excess of the amount contributed by the donor over the value of the goods or services provided, and	_____	_____	_____
.b) Includes a good faith estimate of the value of goods or services received.	_____	_____	_____
.7) For contributions of \$250 or more received by a charitable organization, inquire if contemporaneous substantiation was provided to the donor.	_____	_____	_____
.8) Ensure that the cash method of accounting is used in determining the support test, Schedule A, Part IV-A.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.9) Update permanent file schedule of cumulative contributions by donor.	_____	_____	_____
302) Program Service Revenue:			
.1) Ascertain the organization's sources of exempt function income and determine that these sources are properly reported.	_____	_____	_____
.2) Determine that income from program-related investments is properly reported as program service revenue.	_____	_____	_____
.3) If the organization had sales of inventory items and the organization is not a hospital, university, or college, determine that these sales are NOT reported as program service revenue.	_____	_____	_____
.4) Determine that payments received by §§ 501(c)(9), (17) or (18) organizations for premium equivalents have been classified as program service revenue.	_____	_____	_____
303) Determine that amounts received from members and affiliates that are not considered contributions are reported as membership dues and assessments.	_____	_____	_____
304) Determine that income from associate dues which are for the sale of, or provision of access to, goods or services are reported as unrelated trade or business income.	_____	_____	_____
305) Determine that investment income from debt and equity securities is reported separately from investment, income from savings and temporary cash investments.	_____	_____	_____
306) Income received from sponsorship sources:			
.1) Consider if the requirements of qualified sponsorship payments are met.	_____	_____	_____
.2) Determine if the payments recorded as contributions or revenue related to goods and services are classified appropriately.	_____	_____	_____
307) Review the organization's website for the following activities (See Internet Checklist at www.aicpa.org/pubs/taxadv/online/toc0500.htm - The Internet and Tax Exempt Organizations.):			
.1) UBTI	_____	_____	_____
.2) Political	_____	_____	_____
.3) Activities that may impact the tax-exempt status	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
308) Determine that income or loss of an S corporation is reported as UBTI regardless of the source or nature of such income.	_____	_____	_____
309) Determine if affinity programs are being properly reflected as royalty income.	_____	_____	_____
310) Determine that any capital gain dividends are properly reported as gains from investment securities.	_____	_____	_____
311) Update permanent file schedule of cost for investments that are carried at market and determine if investment income includes mark-to-market adjustments.	_____	_____	_____
312) Determine if income and expenses are reported at the gross amounts for items such as:			
.1) Rental of investment property.	_____	_____	_____
.2) Sales of securities.	_____	_____	_____
.3) Sales of other types of investments and all other non-inventory assets.	_____	_____	_____
313) Fundraising events and activities:			
.1) Inquire if amounts received from fundraising activities are characterized as revenue (i.e., not contributions).	_____	_____	_____
.2) Allocate professional fundraising fees between the categories of program service, management, and fundraising.	_____	_____	_____
.3) Break out expenses that have been netted for financial reporting.	_____	_____	_____
.4) If the organization had revenue from fundraising activities, consider the need to attach a schedule of detailed information.	_____	_____	_____
.5) If the organization had fundraising activities, inquire if proper allocation to fundraising expenses has been made. (IRS audit issue)	_____	_____	_____
.6) Inquire if the organization has retained samples of its fundraising materials, including advertising copy and transcripts of on-air solicitations.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
400) EXPENSES			
401) For § 4947(a)(1) charitable trusts and §§ 501(c)(3) and (4) organizations, determine that expense classifications have been segregated into the required functional expense categories.	_____	_____	_____
402) Determine that scholarship, fellowship, and research grants awarded by the organization are properly reported.	_____	_____	_____
403) Determine that salaries and wages have been properly classified between compensation paid to officers, directors, and key employees and all other compensation.	_____	_____	_____
404) Consider various depreciation methods and lives that may be used.	_____	_____	_____
405) Consider the need to attach a schedule detailing the computation of depreciation.			
.1) Determine if Form 4562 is required.	_____	_____	_____
.2) Consider electing out of bonus depreciation.	_____	_____	_____
406) If the organization included in program service expenses any joint costs from a combined educational campaign and fundraising solicitation, consider the need to disclose additional information.	_____	_____	_____
407) Determine that a detailed description of the organization's four largest program services is provided along with a schedule listing the organization's other program services. The reporting of expense totals is required only for organizations required to report expenses on a functional basis. (IRS audit focal point to maintain tax exempt status.)	_____	_____	_____
.1) Determine if the description agrees with the exempt purpose on file with the IRS.	_____	_____	_____
.2) Determine that documentation reflects sufficient detail to support the related purpose of the activity.	_____	_____	_____
408) Inquire if:			
.1) "Automatic excess benefit" transaction occurred.	_____	_____	_____
.2) If yes, proper documentation on file.	_____	_____	_____
.3) If yes, disclosure required.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
500) BALANCE SHEET			
501) Determine that non-interest-bearing cash accounts are segregated from interest-bearing cash and investment accounts on the balance sheet.	_____	_____	_____
502) Regarding receivables, inquire if there are:			
.1) Pledges receivable.	_____	_____	_____
.2) Grant receivables from governmental units, foundations, or other organizations.	_____	_____	_____
.3) Receivables from officers, directors, trustees, key employees, or other disqualified individuals. If so, obtain necessary details for attachment.	_____	_____	_____
.4) Other notes or loans receivable:	_____	_____	_____
.a) Determine that notes acquired as investments are separately identified and reported from notes that are program-related investments.	_____	_____	_____
.b) Consider the need to attach a detail schedule.	_____	_____	_____
503) Inquire if there are:			
.1) Program-related investments.	_____	_____	_____
.2) Land, buildings, or equipment held for investment.	_____	_____	_____
504) If the organization has notes, mortgages, or loans payable obtain details of:			
.1) Amounts payable to officers, directors, trustees, key employees, or other disqualified individuals. If yes, obtain details for attachment.	_____	_____	_____
.2) Mortgages payable.	_____	_____	_____
.3) Other outstanding notes payable.	_____	_____	_____
505) Fund balances or net assets:			
.1) Determine that all funds without donor imposed restrictions have been shown as unrestricted.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Determine that funds with temporary donor restrictions are so classified.	_____	_____	_____
.3) Determine that the fund balances for permanent endowment funds and term endowment funds are reported as permanently restricted funds.	_____	_____	_____
.4) Verify that mark-to-market adjustments are reported as a part of other changes in net assets on page 1.	_____	_____	_____
.5) Determine if the basis in purchased S corporation stock should be reduced by dividends received.	_____	_____	_____
.6) Cross reference total to page 1 of Form 990.	_____	_____	_____
 600) LIST OF OFFICERS, DIRECTORS, TRUSTEES, AND KEY EMPLOYEES			
601) Review definition of key employee and determine if the organization employs personnel satisfying this definition.	_____	_____	_____
602) Obtain a list of all officers, directors, trustees, and key employees, including their names, addresses, titles, and average hours per week.	_____	_____	_____
603) Inquire about the total compensation package of the organization's officers, directors, and key employees. Report items such as:			
.1) Salary, fee, bonuses, and severance payments.	_____	_____	_____
.2) Deferred compensation arrangements:			
.a) Report when "earned."	_____	_____	_____
.b) Report when paid.	_____	_____	_____
.3) Expense allowances or reimbursements.	_____	_____	_____
.4) The value of personal use of housing, automobiles or other assets provided by the organization.	_____	_____	_____
.5) Other taxable and non-taxable fringe benefits (i.e., health and life insurance, spousal travel, and personal use of auto and cell phone).	_____	_____	_____
604) If an officer, director, trustee, or key employee received compensation from related organizations, consider need to attach detail statement.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
605) Consider reasonableness of compensation.	_____	_____	_____
606) Intermediate sanctions:			
.1) Determine if there is exposure to intermediate sanctions.	_____	_____	_____
.2) If yes, determine if required documentation for rebuttable presumption exists.	_____	_____	_____
700) OTHER INFORMATION			
701) Inquire if the organization has had significant changes in the kind of activities conducted to further its exempt purpose. If yes, attach detailed explanation and send changes directly to IRS. In addition, attach a copy of the explanation to the current year tax return.	_____	_____	_____
702) Determine that no part of the earnings of a § 501(c) organization inures to the benefit of a private shareholder or individual.	_____	_____	_____
703) Inquire if the organization:			
.1) Has revised its governing documents.	_____	_____	_____
.2) Provided copies to the IRS.	_____	_____	_____
704) Complete Form 990-T checklist if:			
.1) There is an unrelated trade or business.	_____	_____	_____
.2) There is debt-financed property.	_____	_____	_____
.3) A partnership, LLC, S corporation, or any other entity interest is owned.	_____	_____	_____
.4) Income is received from a royalty agreement.	_____	_____	_____
.5) Consider filing a zero 990-T return to start the running of the statute of limitations.	_____	_____	_____
705) Determine if the organization owned a 50% or greater interest in any taxable corporation, partnership, LLC, or disregarded entity during the year. If so, properly report:			
.1) Name, address, and TIN of taxable subsidiary.	_____	_____	_____
.2) Percentage of ownership interest.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Nature of the subsidiary's business activities.	_____	_____	_____
.4) Total income and end-of-year assets of the subsidiary.	_____	_____	_____
706) Determine effect of look-through rule for interest, annuities, royalties, rents derived by subsidiaries or single member LLC of tax-exempt organizations.	_____	_____	_____
707) Inquire if there has been a sale or other disposition of exempt organization's assets.	_____	_____	_____
708) Determine if there was a liquidation, dissolution, termination, or substantial contraction.	_____	_____	_____
709) Determine if the organization is related to other organizations.	_____	_____	_____
710) Determine if Form 1120-POL is required.	_____	_____	_____
711) Determine if the organization has properly reported solicited contributions that are not tax deductible.	_____	_____	_____
712) Determine if there is an issue relative to an excess benefit transaction wherein a disqualified person engaged in a non-fair market value transaction with a §§ 501(c)(3) or (4) organization or received unreasonable compensation. (See "Automatic Excess Benefit" transaction.)	_____	_____	_____
713) If there were any excess benefit transactions:			
.1) Attach a schedule describing the transactions.	_____	_____	_____
.2) Indicate if corrections were made.	_____	_____	_____
714) Determine if a statement describing lobbying activities needs to be attached for organizations that have not elected § 501(h).	_____	_____	_____
715) Determine if organization has excess lobbying expenditures or excess political expenditures.	_____	_____	_____
716) Disclose taxes paid during year for the following (by the organization, or any disqualified persons):			
.1) Excess benefit transactions.	_____	_____	_____
.2) Excess expenditures to influence legislation.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Excess political expenditures.	_____	_____	_____
.4) Disqualifying lobbying expenditures.	_____	_____	_____
717) Determine and report the number of employees on the payroll as of March 12th.	_____	_____	_____
718) Determine that all questions on the tax return have been answered or marked N/A.	_____	_____	_____
800) ANALYSIS OF INCOME-PRODUCING ACTIVITIES			
801) Complete analysis of income-producing activities and correlate related income with program service detail at checklist item #302.	_____	_____	_____
802) For income related to the organization's exempt purpose, provide required explanations of the relationship of activities to the accomplishment of exempt purposes.	_____	_____	_____
803) Determine if there is a proper correlation between the information in Parts III and VIII.	_____	_____	_____
804) For other income, review the list of exclusion codes to identify revenue excludable from unrelated business taxable income.	_____	_____	_____
805) Compare amounts reported in Part VII to amounts reported in Part I.	_____	_____	_____
900) MISCELLANEOUS			
901) Reconcile income and expenses per books with return:			
.1) For organizations that conform to SFAS 116 and 117 complete part IV A and B.	_____	_____	_____
.2) For other organizations, prepare schedule for files.	_____	_____	_____
902) Review instructions and determine that all appropriate attachments have been prepared.	_____	_____	_____
903) Determine if Form 8282 is required for sales of donated property.	_____	_____	_____
904) Inquire if employment taxes were paid.	_____	_____	_____
905) Determine that taxes were timely deposited.	_____	_____	_____
906) Determine if electronic deposits of taxes are required.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
907) Determine if a Form 5500 is required for qualified plans.	_____	_____	_____
908) Determine if a Form 5500 is required for §§ 501(c)(9) and (17) organizations.	_____	_____	_____
909) Determine if § 403(b) salary reduction agreements have been modified:			
.1) To allow participants to enter into more than one salary reduction agreement in any taxable year.	_____	_____	_____
.2) Identifying compensation to which salary reduction agreement applies.	_____	_____	_____
.3) Clarifying the revocability of the agreement.	_____	_____	_____
910) Inquire if the organization has filed all required information returns (Forms 1098 and 1099 series).	_____	_____	_____
911) Determine if the personal use portion of employer property, expense reimbursements under “unaccountable plans,” and deferred compensation information has been included in employees’ Form W-2s.	_____	_____	_____
912) Review all independent contractor arrangements to ascertain if there are any improperly classified service providers.	_____	_____	_____
913) Determine that the organization used Form W-9 to obtain TINs for recipients of prizes or awards.	_____	_____	_____
914) Advise exempt organizations (§§ 501(c)(4),(5), & (6)) that they have the following options available for lobbying expenditures:			
.1) Pay 35% proxy tax on lobbying expenditures. Member dues may be deductible in full.	_____	_____	_____
.2) Provide notice to members setting forth the estimated percentage of dues attributed to lobbying for the forthcoming year. That percentage of member dues would be nondeductible.	_____	_____	_____
a) Prepare required disclosure.	_____	_____	_____
b) Prepare election on treatment of expenditures in excess of percentage reported to members.	_____	_____	_____
915) Advise § 501(c)(3) organizations that a donor can’t claim a deduction for contributions in cases where the charity engages in lobbying activities that pertain directly to the donor’s business.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
916) Consider § 501(h) lobbying expenditure election for qualified § 501 (c)(3) organizations.	_____	_____	_____
917) Provide client with the copy of Form 990 available for public inspection with specific schedules excluded (i.e., certain donor information) labeled as “Public Inspection Copy.”	_____	_____	_____
918) Determine that client makes its annual information returns (“Public Inspection Copy”) available for public inspection for 3 years from the filing date. (Reg. §§ 301.6104(d)(3), (4), and (5))	_____	_____	_____
919) Determine that client has its exemption application and related documents available for public inspection.	_____	_____	_____
920) Advise client that it must furnish a copy of its exemption application and/or information returns for the last three years to anyone who requests so in writing. (See Regulation cited above if the organization felt it was subjected to a harassment campaign.)	_____	_____	_____
921) Advise client that the information returns, which are available for public inspection, must be properly signed.	_____	_____	_____
922) Verify that all return attachments contain the taxpayer’s name, TIN and tax year.	_____	_____	_____
923) Attach extension requests.	_____	_____	_____
924) Prepare filing instructions and transmittal letter. (Note all returns now filed in Ogden.)	_____	_____	_____
925) Tell client to obtain written proof of mailing if it chooses to use a private mailing service.	_____	_____	_____
926) Advise client to file Form 8822 if it changes its address during the year.	_____	_____	_____
927) Consider IRS market segment study checksheet (www.irs.gov) for:			
.1) § 501(c)(5)	_____	_____	_____
.2) § 501(c)(6)	_____	_____	_____
.3) § 501(c)(7)	_____	_____	_____
928) Determine if tax shelter disclosure statement is required under Reg. § 1.6011-4 if entity participates, directly or indirectly, in listed transactions.	_____	_____	_____

RETURN OF ORGANIZATION EXEMPT FROM INCOME TAX CHECKLIST
2004 – FORM 990

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
929) Consider recommending the establishment of a § 401(k) plan.	_____	_____	_____
930) Note planning suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
2004 – FORM 990-T

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Determine if the organization is required to file a business income tax return.			
.1) If yes, file Form 990-T. (Note: \$1,000 threshold.)	_____	_____	_____
.2) If no, consider filing a zero 990-T return to start the running of the statue of limitations.	_____	_____	_____
102) Review prior years returns and workpapers.	_____	_____	_____
103) If the organization has unrelated business income:	_____	_____	_____
.1) Determine if the income:			
.a) Is from a trade or business and	_____	_____	_____
.b) Is regularly carried on and	_____	_____	_____
.c) Is not substantially related to the exempt purposes for which the organization was formed.	_____	_____	_____
.2) Review the special rules for:			
.a) Debt-financed property.	_____	_____	_____
.b) Foreign organizations.	_____	_____	_____
.c) Social clubs.	_____	_____	_____
.d) Voluntary employee benefit organizations.	_____	_____	_____
.e) Supplemental unemployment compensation trusts.	_____	_____	_____
.f) Organizations whose exclusive function is to form part of a qualified group legal services plan.	_____	_____	_____
.g) Veterans organizations.	_____	_____	_____
.h) Qualified Corporate Sponsorship.	_____	_____	_____
.i) Affinity programs with royalty payments.	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
2004 – FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
104) Determine if the organization is subject to the proxy tax for lobbying activities under § 6033(e).	_____	_____	_____
105) Obtain copies of prior years IRS audit reports.	_____	_____	_____
106) Consider if disaster relief provisions apply.	_____	_____	_____
200) EXCLUSIONS			
201) Exclude income for a trade or business:			
.1) Where substantially all the work in carrying on such trade or business is performed for the organization without compensation; or	_____	_____	_____
.2) Which is carried on, in the case of an organization described in § 501(c)(3) or in the case of a college or university described in § 511(a)(2)(B), by the organization primarily for the convenience of its members, students, patients, officers, or employees; or	_____	_____	_____
.3) Where substantially all of the merchandise sold has been received by the organization as gifts or contributions.	_____	_____	_____
202) If the organization is described in §§ 501(c)(3), (4) or (5) exclude income from a qualified public entertainment activity.	_____	_____	_____
203) If the organization is described in §§ 501(c)(3), (4), (5) or (6) exclude income from a qualified convention or trade show activity.	_____	_____	_____
204) For a hospital described in § 170(b)(1)(A)(iii) exclude income attributable to furnishing one or more of the services described in § 501(e)(1)(A) to one or more hospitals described in § 170(b)(1)(A)(iii) if:			
.1) Such services are furnished solely to hospitals which have facilities to serve not more than 100 inpatients;	_____	_____	_____
.2) Such services, if performed on its own behalf by the recipient hospital, would constitute activities in exercising or performing the purpose or function constituting the basis for its exemption; and	_____	_____	_____
.3) Such services are provided at a fee or cost which does not exceed the actual cost of providing such services, such cost including straight line depreciation and a reasonable amount for return on capital goods used to provide such services.	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
2004 – FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
205) Exclude income from conducting qualified bingo games.	_____	_____	_____
206) For an organization to which contributions are deductible under §§ 170(c)(2) or (3), exclude income from:			
.1) The distribution of low cost articles if the distribution of such articles is incidental to the solicitation of charitable contributions, or	_____	_____	_____
.2) Any trade or business which consists of:			
.a) Exchanging with another such organization, names and addresses of donors, or	_____	_____	_____
.b) Renting names or addresses to another such organization.	_____	_____	_____
207) Exclude income from research for the United States, or its agencies or instrumentalities, or any state or political subdivision.	_____	_____	_____
208) For a college, university, or hospital exclude income from research performed for any person.	_____	_____	_____
209) For an organization operated primarily for purposes of carrying on fundamental research, exclude income if the results are freely available to the general public.	_____	_____	_____
210) For a religious order, or educational organization maintained by the religious order, exclude income for services provided under federal license.	_____	_____	_____
211) Exclude qualified sponsorship payments per Reg. § 1.513-4.	_____	_____	_____
300) INCOME			
301) Determine that advance payments are reported per Reg. § 1.451-5.	_____	_____	_____
302) Determine that service revenue deemed uncollectible is not accrued.	_____	_____	_____
303) Report the appropriate amount of gain or loss from the sale, exchange, or other disposition of unrelated debt-financed property.	_____	_____	_____
304) Report income from the sale of stock in trade or other property of a kind which would properly be includible in inventory if on hand at the close of the taxable year.	_____	_____	_____
305) Report income from the sale of property held primarily for sale to customers in the ordinary course of the trade or business, unless the property meets the exception in § 512 (b)(16)(A).	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
2004 – FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
306) If the organization maintains inventory, determine if § 263A rules apply. (If applicable refer to Uniform Capitalization Checklist.)	_____	_____	_____
307) If the organization is a member of an entity taxed as a partnership that carries on an unrelated trade or business:			
.1) Determine that its allocable share of gross income and deductions have been included in UBTI. (Note 512(b) modifications)	_____	_____	_____
.2) Determine if the at-risk or passive activity rules apply.	_____	_____	_____
308) If the organization is a member of an entity taxed as an S corporation that carries on an unrelated trade or business:			
.1) Determine that its allocable share of gross income and deductions have been included in UBTI.	_____	_____	_____
.2) Determine if the at-risk or passive activity rules apply.	_____	_____	_____
309) Determine if the organization has included its share of rents from:			
.1) Personal property leased with real property, if the rents from the personal property are more than 10% of the total rents received or accrued, or	_____	_____	_____
.2) Real and personal property if:			
.a) More than 50% of the rents are for the personal property, or	_____	_____	_____
.b) The amount of rent depends on the income or profits derived by any person from the property leased.	_____	_____	_____
310) Determine that income from occupying space when personal services are provided (e.g., hotel) is reported as unrelated business income unless it meets another exemption.	_____	_____	_____
311) Determine that the organization has included income (e.g., dividends, interest, annuities, royalties, and rents) attributable to property held to produce income and with respect to which there is an acquisition indebtedness, except for:			
.1) Income from property substantially all the use of which contributes importantly (aside from the need for funds) to the organization's performance of its exempt functions;	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
2004 – FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Income which has already been subject to tax under the unrelated business tax;	_____	_____	_____
.3) Income from property which is used as part of a research activity which is exempted;	_____	_____	_____
.4) Income from real property that is to be used by the exempt organization within 10 years and is within the “neighborhood” (See special rule for churches.); or	_____	_____	_____
.5) Income from real property investments of educational institutions (as described in § 170(b)(1)(A)(ii)), qualified § 401 trusts, and § 501(c)(25) title holding companies are excluded.	_____	_____	_____
312) If the organization received income (e.g., interest, annuities, royalties, and rents) from a 50% controlled organization (direct or indirect control)			
.1) Include 100% of the payments from a taxable subsidiary.	_____	_____	_____
.2) Determine the inclusion ratio for payments from an exempt subsidiary.	_____	_____	_____
.3) Determine effect of look-through rule for interest, annuities, royalties and rents received from taxable subsidiaries and second tier subsidiaries and single member LLCs.	_____	_____	_____
313) Determine if the organization received UBTI income from services provided by the organization, in connection with the commercial exploitation of its name, goodwill or other intangible assets created by its exempt activities.	_____	_____	_____
314) Determine if the organization has included income from the sale of advertising in a periodical.	_____	_____	_____
315) Identify the sources of income and related deductions from internet activities.	_____	_____	_____
316) Review special rules for internet activities including:			
.1) Advertising.	_____	_____	_____
.2) Acknowledgement of contributions.	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
2004 – FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
400) DEDUCTIONS			
401) Determine that general and administrative expenses are allocated using a method that shows a direct link between the cost and the unrelated activity.	_____	_____	_____
402) Consider the limitations on allocating costs to exploited exempt activity income.	_____	_____	_____
403) Determine that all cost and expense allocations are documented in the workpapers.	_____	_____	_____
404) Consider the limitation on the deductibility of capital losses.	_____	_____	_____
405) Consider the limitations on the use of net operating losses. (Note the recent change to carryback and carryforward provisions.)	_____	_____	_____
406) Update schedule of net operating loss and capital loss carryovers.	_____	_____	_____
407) Consider charitable contribution rules and limitations.	_____	_____	_____
408) Consider limitations on deductions between related parties.	_____	_____	_____
409) Expenses claimed for entertainment, entertainment facilities, gifts and travel.	_____	_____	_____
.1) Inquire if the organization can substantiate by adequate records.	_____	_____	_____
.2) Limit meals and entertainment to allowable percentage. (Note: Exceptions and optional per diem method.)	_____	_____	_____
410) Determine that retirement plan contributions are within allowable limits and are made timely.	_____	_____	_____
411) Consider all depreciation requirements and options including:			
.1) § 179 election.	_____	_____	_____
.2) Methods and lives.	_____	_____	_____
.3) Requirements relating to listed property.	_____	_____	_____
.4) Bonus depreciation.			
.a) election out	_____	_____	_____
.b) state acceptance	_____	_____	_____
412) Determine the amount of the specific deduction.	_____	_____	_____

EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN CHECKLIST
2004 – FORM 990-T

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
500) TAX COMPUTATIONS AND CREDITS			
501) Compute alternative minimum tax.	_____	_____	_____
502) Consider application of proxy tax.	_____	_____	_____
503) Consider tax credits.	_____	_____	_____
504) Confirm current year estimated tax payments, prior year overpayments applied and extension payments.	_____	_____	_____
505) Determine if electronic deposit of taxes is required.	_____	_____	_____
506) Consider underpayment penalties.	_____	_____	_____
507) Determine need for subsequent period estimated tax payments.	_____	_____	_____
508) Determine need to file business income tax returns with state or local authorities.	_____	_____	_____
600) MISCELLANEOUS			
601) Consider IRS market study checklist (www.irs.gov) for:			
.1) 501(c)(5)	_____	_____	_____
.2) 501(c)(6)	_____	_____	_____
.3) 501(c)(7)	_____	_____	_____
602) Determine if tax shelter disclosure statement is required under §§ 6011, 6111, 6112 and regulations if entity participates, directly or indirectly, in listed transaction.	_____	_____	_____
603) Review the Unrelated Business Activity Code included in Block E on page one of the return. (The IRS has revised these codes; therefore, one or more of the codes used in prior year may be obsolete.)	_____	_____	_____
604) Note planning suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

RETURN OF PRIVATE FOUNDATION CHECKLIST
2004—FORM 990-PF

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider a signed engagement letter.	_____	_____	_____
102) Review prior year returns, workpapers, correspondence, planning suggestions and audit results.	_____	_____	_____
103) Review IRS determination letter.	_____	_____	_____
104) Determine if prior year returns have been examined by the IRS or the state and if so, obtain copies of the agents' reports and determine if the foundation is in compliance with any recommended changes.	_____	_____	_____
105) Update <i>proforma</i> information.	_____	_____	_____
106) Determine if there are related organizations.	_____	_____	_____
107) Determine if there was:	_____	_____	_____
.1) a change in activities.	_____	_____	_____
.2) a change in bylaws.	_____	_____	_____
.3) a liquidation, dissolution, termination or substantial contraction.	_____	_____	_____
108) Determine if state return is required.	_____	_____	_____
200) REVENUE/EXPENSES			
201) Complete Part I column (a) according to the Foundation's financial reports. Reconcile:	_____	_____	_____
.1) revenue to amounts on books.	_____	_____	_____
.2) expenses to amounts shown on books.	_____	_____	_____
202) Obtain a list of all current donors including names and addresses.	_____	_____	_____
.1) Update permanent file schedule of cumulative contributions received by donor.	_____	_____	_____
.2) Determine if any contributor became "substantial contributor" during the year.	_____	_____	_____

RETURN OF PRIVATE FOUNDATION CHECKLIST
2004—FORM 990-PF

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
203) Input interest, dividends, rents, and royalties in column (b).	_____	_____	_____
204) List sale of assets.	_____	_____	_____
.1) Determine the proper tax basis including assets with a December 31, 1969 substituted basis.	_____	_____	_____
.2) Exclude sale of exempt function assets from column (b).	_____	_____	_____
.3) Update permanent file schedule of cost for investments that are carried at market value.	_____	_____	_____
205) For expenses that relate to both an investment and a charitable activity, determine that a reasonable and consistent allocation of such expenses (including depreciation) has been made and that the organization maintains documentation to support the allocation methods used.	_____	_____	_____
206) List all officers, directors, trustees, foundation managers, highly paid employees and contractors and their compensation, if any, including title, average weekly hours, health and welfare benefits, pension contributions, and expense accounts.	_____	_____	_____
.1) Determine that the above list is current and documented in board minutes.	_____	_____	_____
.2) Consider reasonableness of compensation.	_____	_____	_____
207) List grants paid.	_____	_____	_____
.1) Note purpose of each grant.	_____	_____	_____
.2) Verify public status of all recipients.	_____	_____	_____
.3) Determine if any grants require expenditure responsibility, and if so, obtain appropriate documentation and disclosure in return.	_____	_____	_____
208) Determine if application criteria are documented and current.	_____	_____	_____
209) Determine if amounts reported as expenses attributable to charitable activities offset the income from those activities that is reported in adjusted net income in column (c).	_____	_____	_____
210) Ensure that charitable disbursements are included in Part I column (d) using the cash method of accounting. Do not include depreciation or depletion.	_____	_____	_____

RETURN OF PRIVATE FOUNDATION CHECKLIST
2004—FORM 990-PF

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
211) Determine if donated services and facilities are excluded from Parts I and II.	_____	_____	_____
300) UNRELATED BUSINESS INCOME TAX			
301) Determine if there is an unrelated trade or business.	_____	_____	_____
302) Determine if a partnership, LLC or S corporation interest is owned.	_____	_____	_____
303) Determine if there is debt-financed property.	_____	_____	_____
304) Review royalty agreements.	_____	_____	_____
305) Complete Form 990-T checklist if any of the above exist.	_____	_____	_____
306) Verify presentation in part XVI-A.	_____	_____	_____
400) MINIMUM INVESTMENT RETURN			
401) Calculate the average monthly fair market value for:			
.1) publicly traded securities.	_____	_____	_____
.2) cash.	_____	_____	_____
402) Calculate average value of cash account based on total of first and last day of each monthly divided by the 24. (For securities value once a month)	_____	_____	_____
403) When calculating minimum investment return:			
.1) identify and exclude exempt purpose assets.	_____	_____	_____
.2) determine reasonable allocation for properties used for both investment and charitable activities.	_____	_____	_____
.3) determine if appraisals of real property have been updated within five years. If value has declined consider reappraisal.	_____	_____	_____
404) For assets contributed during the current year, prorate according to number of days asset held.	_____	_____	_____
405) For short year return:			
.1) divide value by number of months in existence	_____	_____	_____
.2) Prorate 5% payout	_____	_____	_____

RETURN OF PRIVATE FOUNDATION CHECKLIST
2004—FORM 990-PF

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
500) EXCISE TAXES			
501) Determine if the organization has done any of the following:			
.1) engaged in acts of self-dealing.	_____	_____	_____
.2) failed to make required distributions, after applying any carryovers. Consider new entity exception.	_____	_____	_____
.3) failed to dispose of any excess business holdings within the proper time period.	_____	_____	_____
.4) made investments that jeopardize the foundation's charitable purpose.	_____	_____	_____
.5) made taxable or political expenditures.	_____	_____	_____
502) If it has been determined that the organizations engaged in any of the above activities:			
.1) file Form 4720. (Return of Certain Excise Taxes on Charities and Other Persons Under Chapters 41 and 42 of the Internal Revenue Code)	_____	_____	_____
.2) verify that the organization has taken steps to correct the act within the proper time period.	_____	_____	_____
.3) prepare request for penalty abatement, if applicable.	_____	_____	_____
503) Determine if election is needed to distribute prior years undistributed income.	_____	_____	_____
600) TAX ON INVESTMENT INCOME			
601) Complete part V to calculate qualification for reduced tax rate.	_____	_____	_____
602) Determine if estimated payments have been made on a timely basis and review requirements for subsequent year's estimated taxes.	_____	_____	_____
.1) Determine if large corporation rules apply.	_____	_____	_____
.2) Complete Form 2220 (Underpayment of Estimated Tax by Corporation) and attach it to return.	_____	_____	_____

RETURN OF PRIVATE FOUNDATION CHECKLIST
2004—FORM 990-PF

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
700) TAX COMPLIANCE MATTERS			
701) If the organization meets the requirements under § 6104(d), document the organization's policy with respect to public inspection of annual returns and exemption applications. (Reg. § 301.6104(d)-1)			
702) Instruct client to send copies of Form 990-PF to the state attorney general's office and/or other state officials.			
703) Determine that required information returns were filed.			
704) Inquire if employment taxes were paid/timely deposited.			
705) Review independent contractor arrangements.			
706) Determine if Form 8282 is required for sales of donated property.			
707) Determine if Form 5500 is required.			
708) Determine that required contemporaneous substantiation was provided for donations of \$250 or more.			
709) Determine that there were no <i>quid pro quo</i> transactions.			
710) Verify that return attachments contain the taxpayer's name, TIN and tax year.			
711) Attach extension requests.			
712) Prepare filing instructions/transmittal. (Note all returns now filed in Ogden Service Center.)			
713) Determine if electronic deposit of taxes is required.			
800) OTHER CONSIDERATIONS			
801) Determine that property distributions were reported at fair market value as opposed to cost.			
802) Determine if there were any qualifying distributions made during the year to foreign organizations. (Rev. Proc. 92-94)			
803) Consider obtaining advance approval from the IRS if the organization is planning any projects that qualify for a set-aside under the suitability test.			

RETURN OF PRIVATE FOUNDATION CHECKLIST
2004—FORM 990-PF

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
804) Consider need to seek approval for scholarship plan.	_____	_____	_____
900) PLANNING ISSUES			
901) Consider the possibility of changing the organization tax status to a public charity or private operating foundation.	_____	_____	_____
902) Consider increasing qualifying distributions so the organization can qualify for the 1% reduced rate of tax on net investment income.	_____	_____	_____
903) Consider distributing appreciated securities to grantees to avoid excise tax on capital gains.	_____	_____	_____
904) If assets have declined in value, advise client losses are neither deductible nor available for carryover.	_____	_____	_____

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST INDIVIDUAL INCOME TAX RETURN 2004 - FORM 1040

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION			Worthless stock/bad debt	___	___
			Punitive damages	___	___
			Exclusion of employer-provided educational assistance	___	___
1. Consider signed engagement/separate privilege engagement letter.	___	___			
2. Review and update taxpayer information, filing status and dependents.	___	___	DEDUCTIONS		
3. Review prior year returns, workpapers, correspondence, and audit results.	___	___	1. Consider the following:	___	___
4. Review proforma/organizer for accuracy.	___	___	Home office Form 8829	___	___
5. If e-filing review E-File Checklist.	___	___	IRA, SEP, SIMPLE, Keogh, MSA, and HSA contribution	___	___
6. Complete State Individual Tax Return Checklist.	___	___	Roth IRA and Education Savings Account non-deductible contributions	___	___
7. Check for carryovers and update schedules including effect of prior period tax audits.	___	___	Moving expense	___	___
8. Consider below-market-rate loan rules.	___	___	Casualty losses	___	___
9. Review accounting methods.	___	___	Allocation and limitation of interest	___	___
10. Properly report adjustments for accounting method changes.	___	___	Alimony	___	___
11. Consider filing power of attorney.	___	___	Itemized deductions	___	___
12. Determine if client is to be provided with a privacy disclosure notice.	___	___	State and local sales tax (AJCA 2004)	___	___
13. Consider if disaster relief provisions apply.	___	___	2. Limit on meals and entertainment and exceptions.	___	___
INCOME			3. Consider Form 8283 for noncash donations.	___	___
1. For sales or other disposition of property consider:	___	___	4. Consider limitations on deductibility of dues and lobbying expenses.	___	___
Recapture	___	___	DEPRECIATION/AMORTIZATION		
Installment sales treatment see Installment Sale Checklist	___	___	1. Consider the following:	___	___
Taxable/deferred/excluded gain on sale of residence or other property	___	___	50% additional first-year depreciation (JGTRRA 2003)	___	___
Holding period/basis	___	___	30% additional first-year depreciation election for 50% bonus depreciation property (JGTRRA 2003)	___	___
Related party transactions	___	___	Election out of bonus depreciation	___	___
Like-kind exchanges	___	___	§ 179 election	___	___
2. Consider the following:	___	___	Methods and lives	___	___
Salaries and fringe benefits	___	___	Listed property	___	___
Taxability of dividends, interest and capital gain distributions	___	___	Capitalization of leased property	___	___
Ordinary income on market discount bonds and deferral of related interest expense	___	___	Qualified leasehold improvement property (AJCA 2004)	___	___
Annuities, retirement plans, IRAs, Roth conversions	___	___	Amortization of goodwill and other intangibles	___	___
Limitations due to at-risk and basis	___	___	2. Compute AMT depreciation.	___	___
Passive loss limitations and election	___	___	3. Compute state depreciation, if different.	___	___
Alimony	___	___			
Rents	___	___			
Tax benefit rules	___	___			
Discharge of indebtedness	___	___			

(continued)

MINI-CHECKLIST
INDIVIDUAL INCOME TAX RETURN
2004 - FORM 1040

TAX COMPUTATION AND CREDITS

- | | | |
|--|-------|-------|
| 1. Compute regular and AMT tax. | _____ | _____ |
| 2. Compute self-employment tax and deduction. | _____ | _____ |
| 3. Compute all credits, carryovers, recaptures. | _____ | _____ |
| 4. Compute tax on premature distributions. | _____ | _____ |
| 5. Claim credit for excess FICA, other withholding/
payments. | _____ | _____ |

OTHER

- | | | |
|--|-------|-------|
| 1. Consider risk of accuracy-related penalty. (§ 6662) | _____ | _____ |
| 2. Compare taxable income and tax to projections. | _____ | _____ |
| 3. Report tax shelters. Form 8271 | _____ | _____ |
| 4. Consider election to forgo NOL carryback. | _____ | _____ |
| 5. Consider inclusion of child's taxable income. | _____ | _____ |
| 6. Evaluate estimated tax payment/withholding. | _____ | _____ |
| 7. Consider household employee requirements. | _____ | _____ |
| 8. Consider other returns (e.g., gift, qualified plans). | _____ | _____ |
| 9. Include/attach extension request(s). | _____ | _____ |
| 10. Note planning/additional service suggestions. | _____ | _____ |

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 - FORM 1040

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider:			
.1) Signed engagement letter	_____	_____	_____
.2) Separate engagement letter for tax advice under the CPA-client privilege provisions of § 7525.	_____	_____	_____
102) Review and update basic taxpayer information (address, dependents, etc.), IRS and other tax processing centers, prior returns, and workpapers.	_____	_____	_____
103) Review proforma/organizer for accuracy.	_____	_____	_____
104) If e-filing, review E-File Checklist.	_____	_____	_____
105) Obtain information concerning IRS, state tax audits, and/or correspondence.	_____	_____	_____
106) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
107) Complete State Individual Tax Return Checklist.	_____	_____	_____
108) If accrual method of accounting, note recurring item exception.	_____	_____	_____
109) Check for carryover items and update carryforward schedules.	_____	_____	_____
110) Review for adequate interest on new or modified debt instrument.	_____	_____	_____
111) Determine if taxpayer has reporting requirements related to foreign trusts.	_____	_____	_____
112) Determine if taxpayer has reporting requirements for household employees. (Schedule H)	_____	_____	_____
113) Consider filing power of attorney.	_____	_____	_____
114) Determine if client is to be provided with a privacy disclosure notice.	_____	_____	_____
115) Consider if disaster relief provisions apply.	_____	_____	_____

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
200) INCOME			
201) Review taxpayer's W-2 noting if all income had been included and treatment of reimbursements and federal, state and local differences.	_____	_____	_____
202) Consider:			
.1) If overseas taxpayer qualifies for automatic two-month filing extension, for foreign earned income exclusion, housing exclusion or housing deduction.	_____	_____	_____
.2) Filing/paying extension for both military personnel in combat zone and those assigned to contingency operations. (MFTRA 2003)	_____	_____	_____
203) Determine tax treatment of interest, dividends, and capital gain distributions and amounts subject to AMT.	_____	_____	_____
204) Determine if alimony paid or received. (See Divorce Issues Checklist.)	_____	_____	_____
205) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
206) Determine proper reporting of all annuities and qualified retirement plan and IRA distributions, including Roth conversions; considering the various options for taxing lump-sum distributions from qualified retirement plans.	_____	_____	_____
207) Sale or other disposition of property:			
.1) Check for recapture items. (Note unrecaptured § 1250 gain.)	_____	_____	_____
.2) If installment sales apply; see Installment Sale Checklist.	_____	_____	_____
.3) Consider exclusion from gains for sales of personal residence.	_____	_____	_____
.4) Determine holding period and tax basis of property sold.	_____	_____	_____
.5) Consider rules for like-kind and related party exchanges (Form 8824) (Note restrictions on U.S./foreign exchanges.)	_____	_____	_____
.6) Consider rules for Presidentially-declared disasters.	_____	_____	_____
.7) Report recognition of gain on constructive sales.	_____	_____	_____

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.8) Consider deferring gain from involuntary conversion of livestock. (AJCA 2004) (Note 2002 and 2003 returns may be amended.)	_____	_____	_____
.9) Consider home sale exclusion of principal residence in like-kind exchange within five years. (AJCA 2004)	_____	_____	_____
208) Consider regular and AMT passive activity loss limitations, carryovers and election. (See Passive Activity Checklist)	_____	_____	_____
209) Determine that all Schedules K-1 have been received and that all items have been properly reported.	_____	_____	_____
210) Consider at-risk limitation (Form 6198) and hobby loss rules on sole proprietor Schedule C.	_____	_____	_____
211) Inquire about other possible sources of income such as rents, taxable fringe benefits, discharge of indebtedness income, gambling and lottery.	_____	_____	_____
212) Consider mark to market rules for "dealers in securities."	_____	_____	_____
213) Consider appropriate income inclusion amount for leased vehicles and property. (See Vehicle Related Guides.)	_____	_____	_____
214) If the taxpayer recovered amounts previously deducted, consider tax benefit rules.	_____	_____	_____
215) Consider exclusion from income of certain employer-provided educational assistance.	_____	_____	_____
216) Consider exclusion from income of accelerated death benefits.	_____	_____	_____
217) Consider inclusion requirements for punitive damages received.	_____	_____	_____
218) Consider exclusion from income of proceeds of long-term care insurance.	_____	_____	_____
219) Consider discharge of indebtedness income and related exclusions and elections.	_____	_____	_____
220) Consider:			
.1) Exclusion for military death benefits received after 9/10/01. (MFTRA 2003)	_____	_____	_____
.2) Filing amended returns for 2001, 2002, and 2003.	_____	_____	_____

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
221) Consider certain student loan forgiveness not included in income. (AJCA 2004)	_____	_____	_____
300) DEDUCTIONS			
301) Consider home office deduction, limitations and carryovers. (Note less restrictive definition of "principal place of business.") (§ 280A(c))	_____	_____	_____
302) Determine if the taxpayer is entitled to deduction for contribution to IRA, SIMPLE, Keogh, SEP, MSA, and/or HSA. (Note exceptions.)	_____	_____	_____
303) Consider catch-up provisions for increased contributions for individuals age 50 and over before the end of the plan year.	_____	_____	_____
304) Consider non-deductible Roth IRA, Education Savings Account, and/or Education IRA.	_____	_____	_____
305) Determine the proper allocation of and limitations on deductions for interest and other deductions relating to:			
.1) Investment expenditures:			
.a) Consider election to treat long-term capital gain as investment income.	_____	_____	_____
.b) Consider election to treat dividends as investment income.	_____	_____	_____
.2) Qualified residence interest.	_____	_____	_____
.3) Trade or business expenditures.	_____	_____	_____
.4) Passive activity expenditures.	_____	_____	_____
.5) Tax-exempt investments.	_____	_____	_____
.6) Capitalization of interest during construction.	_____	_____	_____
.7) Interest on qualified plan loans.	_____	_____	_____
.8) Meals and entertainment expenses. Consider exceptions, including employer provided meals.	_____	_____	_____
.9) Club dues.	_____	_____	_____
.10) Lobbying expenses.	_____	_____	_____
.11) Self-employed health insurance.	_____	_____	_____

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.12) Charitable contributions.	_____	_____	_____
.13) Student loan interest, including capitalized interest and organization fees.	_____	_____	_____
.14) Educators' out-of-pocket expenses.	_____	_____	_____
.15) Qualified higher education tuition and fees.	_____	_____	_____
.16) Rural mail carrier unreimbursed vehicle expense. (AJCA 2004)	_____	_____	_____
306) Consider requirement to file Form 8283 for charitable contributions other than cash.	_____	_____	_____
307) Inquire about other possible deductions such as medical expense, taxes, moving expenses, employee business expense, worthless securities, § 1244 stock, casualty losses, vacation homes, etc.	_____	_____	_____
308) Consider capitalization of carrying charges on non-productive property.	_____	_____	_____
309) Consider above-the-line deduction for travel expenses of National Guard troops and reservists. (MFTRA 2003)	_____	_____	_____
310) Consider state and local sales tax deduction election. (AJCA 2004)	_____	_____	_____
400) DEPRECIATION / AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) 50% additional first-year depreciation for assets placed in service before January 1, 2005. (JGTRRA 2003)	_____	_____	_____
.2) 30% additional first-year depreciation for 50% bonus depreciation property. (Note: Special election must be made on the tax return.) (JGTRRA 2003)	_____	_____	_____
.3) Election out of bonus depreciation.	_____	_____	_____
.4) § 179 election including "off-the self" software. (JGTRRA 2003)	_____	_____	_____
.5) Methods and lives.	_____	_____	_____

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) Depreciation of property received in a like kind exchange or involuntary conversion. (Reg. § 1.168(i)-6T for transactions occurring after February 27, 2004 and Notice 2000-4 for transactions prior to this date.)	_____	_____	_____
.7) Limitations relating to listed property. (Note exceptions for vehicles with GVW of more than 6,000 lbs. also qualified nonpersonal use trucks and vans placed in service after July 6, 2003 and before October 23, 2004.) (Reg. § 1.280F-6(c)(3)(iii) and see Rev. Proc. 2004-20.)	_____	_____	_____
.8) For business vehicles purchased after October 22, 2004, consider the new limitations for sport utility vehicles rated at 14,000 lbs. gross vehicle weight or less. (AJCA 2004)	_____	_____	_____
.9) Determine if leased property should be capitalized.	_____	_____	_____
.10) Determine if qualified leasehold improvement property or restaurant property for use of 15-year recovery period for property placed in service after October 22, 2004 and before 2006. (AJCA 2004)	_____	_____	_____
.11) Consider 36-month amortization rules for software.	_____	_____	_____
.12) Election of 150% DB method for 200% DB method on personal property.	_____	_____	_____
.13) Reduced depreciable lives for real estate improvements and special use structures.	_____	_____	_____
.14) Separate component analysis for building items. (Comm vs Brookshire Brothers Holding, Inc. 5 th Cir, 01-60978, 1/29/03) (HCA 109 T.C. 21)	_____	_____	_____
402) Consider AMT depreciation.	_____	_____	_____
403) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
404) Consider state depreciation, if different.	_____	_____	_____
500) TAX COMPUTATION AND CREDITS			
501) Compute tax, including alternative minimum tax.	_____	_____	_____

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 - FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
502) Consider income averaging for farmers and fishermen. (AJCA 2004) (Note AMT exceptions.)	_____	_____	_____
503) Compute self-employment tax and related deduction.	_____	_____	_____
504) Compute all applicable federal and state credits including carryovers. (Note adoption credit, child tax credit and education credits.) (Note extension of credits (AJCA 2004).)	_____	_____	_____
505) Compute credit recapture.	_____	_____	_____
506) Compute tax on premature distributions from retirement accounts and annuities.	_____	_____	_____
507) Claim excess FICA, other withholding, prior year amounts applied, estimated and extension tax payments.	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Compare taxable income and tax to projections.	_____	_____	_____
602) Consider changes needed in withholding or estimated tax for the forthcoming year.	_____	_____	_____
603) Determine if:			
.1) Form 8271 is required for tax shelters.	_____	_____	_____
.2) Tax shelter disclosure statement under Reg. § 1.6011-4 if individual participates, directly or indirectly, in listed transaction.	_____	_____	_____
604) Consider new elections for net operating losses.	_____	_____	_____
605) Consider need to report taxable income information on dependent's returns.	_____	_____	_____
606) If parent elects to report child's interest and dividends, prepare Form 8814.	_____	_____	_____
607) Inquire if the taxpayer has required records for travel, entertainment, gift and listed property deductions.	_____	_____	_____
608) Consider risk of accuracy-related penalty. (§ 6662)	_____	_____	_____

SHORT VERSION
INDIVIDUAL INCOME TAX RETURN CHECKLIST
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609) Inquire if taxpayer has filed all required returns.
(W-2s, 1099 series, Form 8300, etc.)

610) Inquire if employment taxes were timely deposited.

611) Advise taxpayers with employee benefit plans of return filing requirements.

612) Determine if gift tax return is required.

613) Include Form 1040V. Make checks payable to "United States Treasury". If considering credit card payment, inform client that taxpayer pays the credit card fee.

614) Consider direct deposit for refunds.

615) Include/attach extension request(s).

616) Note tax planning/additional service suggestions.

COMMENTS OR EXPLANATIONS

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 - FORM 1040

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider:			
.1) Signed engagement letter.	_____	_____	_____
.2) Separate engagement letter for tax advice under the CPA-client privilege provisions of § 7525.	_____	_____	_____
102) Review and update the taxpayer's name, age, Social Security number, address, occupation, filing status, number of exemptions and other dependents, and IRS and other tax processing centers. Obtain Social Security number/TIN, relationship, and date of birth for dependents. (Note Rev. Rul. 2003-72 to determine child's age.)	_____	_____	_____
103) Review permanent file, prior year returns, memos, workpapers and correspondence files.	_____	_____	_____
104) Review proforma/organizer for accuracy.	_____	_____	_____
105) If e-filing, review E-Filing Checklist.	_____	_____	_____
106) If the taxpayer has been examined by the Internal Revenue Service or state or local taxing authorities:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine that the agent's adjustments have been entered in the taxpayer's records and appropriate carryforward workpapers.	_____	_____	_____
.3) If the agent's adjustments affect income tax returns of years other than those examined, or the corresponding federal or state returns for the same year, consider filing amended returns.	_____	_____	_____
107) Obtain copies and consider impact of correspondence with IRS or state taxing authorities.	_____	_____	_____
108) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
109) Complete State Individual Income Tax Return Checklist.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
110) Consider economic performance requirement and recurring item exceptions.	_____	_____	_____
111) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Net operating loss.	_____	_____	_____
.2) Capital loss.	_____	_____	_____
.3) Investment credit.	_____	_____	_____
.4) Alternative minimum tax credit.	_____	_____	_____
.5) Other credits. (Foreign tax, etc.)	_____	_____	_____
.6) Charitable contributions.	_____	_____	_____
.7) Installment sales. (Note applicable tax rates for components of gain.)	_____	_____	_____
.8) Retirement plan contribution.	_____	_____	_____
.9) Passive activity losses and credits.	_____	_____	_____
.10) Suspended losses/credits due to at-risk limitations.	_____	_____	_____
.11) S corporation, LLC and partnership basis.	_____	_____	_____
.12) "Publicly traded partnership" losses.	_____	_____	_____
.13) Change of accounting adjustments (§ 481).	_____	_____	_____
.14) Home office deductions.	_____	_____	_____
.15) § 179.	_____	_____	_____
.16) Investment interest expense.	_____	_____	_____
.17) Home mortgage points for amortization.	_____	_____	_____
.18) Nontaxable or reinvested dividends and original issue discounts.	_____	_____	_____
.19) Percentage depletion.	_____	_____	_____
.20) Prior year overpayment(s) credited to subsequent year estimate.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.21) Deadline for replacing involuntary converted property.	_____	_____	_____
112) Inquire if the taxpayer has made or received any below-market-rate loans. If so, determine imputed interest consequences and existence of properly executed notes.	_____	_____	_____
113) Review for adequate stated interest on debt instruments:			
.1) Determine if OID or the unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.2) Consider election for purchase discount under § 1278.	_____	_____	_____
114) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments.	_____	_____	_____
115) Review applicable financial statements and footnotes for relevant information.	_____	_____	_____
116) Determine if taxpayer had household employees:			
.1) Obtain TIN.	_____	_____	_____
.2) Obtain state reporting number.	_____	_____	_____
.3) Complete Schedule H.	_____	_____	_____
.4) Obtain copy of Form(s) W-2.	_____	_____	_____
.5) Obtain copy of state unemployment return(s).	_____	_____	_____
117) Regarding reporting related to foreign trusts (§ 6048), determine if U.S. person:			
.1) Created a foreign trust.	_____	_____	_____
.2) Transferred property to a foreign trust.	_____	_____	_____
.3) Received distributions, directly or indirectly, from a foreign trust.	_____	_____	_____
.4) Received loans, unless with arm's-length terms, from a foreign trust.	_____	_____	_____
.5) Is a beneficiary of a foreign trust and transferred property to a foreign grantor of the trust.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
118) Consider filing power of attorney.	_____	_____	_____
119) Determine if client is to be provided with a privacy disclosure notice.	_____	_____	_____
120) Consider if disaster relief provisions apply.	_____	_____	_____
200) INCOME			
201) Review taxpayer's Form(s) W-2:			
.1) Inquire if all income and all taxable employee benefits are included on Form W-2.	_____	_____	_____
.2) If dependent care expense reimbursements appear on Form W-2, include Form 2441.	_____	_____	_____
.3) Determine if reimbursed employee business expenses were included in wages.	_____	_____	_____
.4) Note any differences between federal, state and local taxable income.	_____	_____	_____
.5) Inquire if qualifying employer-provided assistance has been excluded.	_____	_____	_____
.6) Inquire if moving expenses are included on Form W-2.	_____	_____	_____
.7) Inquire if split-dollar compensation is included on Form W-2.	_____	_____	_____
202) Consider:			
.1) If overseas taxpayer qualifies for the automatic two-month filing extension, the foreign earned income exclusion, the housing exclusion or housing deduction.	_____	_____	_____
.2) Filing/paying extension for both military personnel in combat zone and those assigned to contingency operations. (MFTRA 2003)	_____	_____	_____
203) Inquire if taxpayer had investment income from foreign sources and if tax was withheld at the source.	_____	_____	_____
204) Disclose exempt interest on state and municipal bonds and exempt bond fund dividends.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
205) Determine if any exempt interest is subject to alternative minimum tax.	_____	_____	_____
206) Compare sources and amounts of dividends and interest income with prior year items.	_____	_____	_____
207) Review 1099s for dividends, interest and gross proceeds. Identity of payor and amount should agree with 1099. Include TIN and address of payor of interest received from seller provided financing.	_____	_____	_____
208) If a 1099-OID is received, compute the includible amount.	_____	_____	_____
209) If interest is received, determine if:			
.1) Any portion of the interest received is excludible as accrued interest purchased.	_____	_____	_____
.2) There are penalties for early withdrawals.	_____	_____	_____
.3) U.S. savings bond redemption was used for higher education and qualifies to be excluded from income.	_____	_____	_____
210) Review dividends:			
.1) Segregate taxable, non-taxable and capital gain portions.	_____	_____	_____
.2) Consider if stock dividends are included.	_____	_____	_____
.3) Consider reduced tax rates on qualifying dividends under JGTRRA 2003.	_____	_____	_____
211) If the taxpayer is divorced or separated:			
.1) Complete Divorce Issues Checklist.	_____	_____	_____
.2) Obtain copy of divorce decree or separate maintenance agreement.	_____	_____	_____
.3) Inquire if the taxpayer paid or received alimony or separate maintenance payments.	_____	_____	_____
.4) Determine that child support payments are not reported as income.	_____	_____	_____
.5) Include the recipient's name and Social Security number for alimony or separate maintenance payments paid.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) For post-1986 divorces, review amount received/paid to determine non-taxable/deductible/recapture portion.	_____	_____	_____
212) If installment sale rules apply, see Installment Sale Checklist.	_____	_____	_____
213) If a residence was sold, exchanged, or involuntarily converted during the year:			
.1) Consider \$500,000 (MFJ) or \$250,000 exclusion from gain on the sale of principal residence. (Note ownership and use requirements and ability to have a partial gain exclusion.)	_____	_____	_____
.2) Consider possible recognition of gain on home office portion of principal residence.	_____	_____	_____
.3) Consider that the replacement period for property involuntarily converted is determined by the type of property.	_____	_____	_____
.4) Obtain closing statements, loan disbursement statements, capital improvements or other basis adjustments and most recent Form 2119 and determine the amount of any property tax reimbursement.	_____	_____	_____
.5) Consider recapture of depreciation and/or tax credits (home office and related equipment). (§ 1245 and § 1250)	_____	_____	_____
.6) Consider suspension of the five-year period for qualified military personnel. (MFTRA 2003) (Note rules for amended returns.)	_____	_____	_____
.7) Consider no home sale exclusion applies for principal residence acquired in like-kind exchange within five years. (AJCA 2004)	_____	_____	_____
214) If property was sold, exchanged, or involuntarily converted during the year:			
.1) Reconcile to depreciation schedule.	_____	_____	_____
.2) Determine holding period and federal, state and AMT tax bases.	_____	_____	_____
.3) Determine that gains and losses are properly characterized.	_____	_____	_____
.4) For § 1231 gains, determine the amount subject to ordinary income treatment as a result of five-year recapture rule for prior net § 1231 losses.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Determine that sales of securities settled after year-end, with a trade date within current year, are reported this year. (Note special rules for short sales.) (§ 1233)	_____	_____	_____
.6) Review application of the wash sale rules.	_____	_____	_____
.7) Report gains on constructive sales of appreciated financial positions.	_____	_____	_____
.8) Review application of straddle rules and available elections under § 1092.	_____	_____	_____
.9) Consider allowable methods of calculating basis on the sale of mutual fund shares.	_____	_____	_____
.10) Consider if limitations apply for a mutual fund sold within six months of acquisition.	_____	_____	_____
.11) Consider the effect on basis of nontaxable stock dividends, reinvested dividends and OID.	_____	_____	_____
.12) Consider provisions related to:			
.a) Non-recognition of gain or loss. (Form 8824) (Note restrictions on exchange of U.S. property for foreign property.)	_____	_____	_____
.b) Rules for like-kind and related party exchanges. (Form 8824)	_____	_____	_____
.c) Recapture of depreciation (including § 291 recapture) and/or tax credit, or reduction of credit carryforwards. (§ 1245)	_____	_____	_____
.d) Presumption of capital gain relating to subdivision of land. (§ 1237)	_____	_____	_____
.e) Gain from distribution of appreciated property.	_____	_____	_____
.f) Forced sale of livestock on account of weather-related conditions.	_____	_____	_____
.g) Election to rollover gain from the sale of qualified small business stock.	_____	_____	_____
.h) Presidentially-declared disasters.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.i) Involuntary conversion of livestock. (AJCA 2004) (Note 2002 and 2003 returns may be amended.	_____	_____	_____
215) Consider ordinary income treatment for gain on sale of market discount bonds:			
.1) Taxable bonds issued after July 18, 1984, or issued before July 19, 1984 and purchased after April 30, 1993.	_____	_____	_____
.2) Tax-exempt bonds acquired after April 30, 1993.	_____	_____	_____
216) Inquire if the taxpayer has any worthless securities. (Note that substantial worthlessness of short sale property is a gain recognition event.)	_____	_____	_____
217) If the taxpayer recovered amounts previously deducted (such as state income taxes and medical expenses), consider tax benefit rules.	_____	_____	_____
218) Consider all options for lump-sum distributions from qualified retirement plans:			
.1) Election to treat capital gains portion as ordinary income.	_____	_____	_____
.2) Taxpayers reaching 50 before 1986 have a one-time election.	_____	_____	_____
219) For IRA, pension, annuity, MSA or HSA distributions, consider:			
.1) Nontaxable portions (federal and state).	_____	_____	_____
.2) Applicability of early withdrawal penalty. (Note exceptions including exception for IRA distributions for catastrophic medical expense and health insurance premiums during periods of unemployment and the exception for qualified higher education expenses and the purchase of a home by a first time buyer.)	_____	_____	_____
.3) A qualified rollover within 60 days of distribution.	_____	_____	_____
.4) If the taxpayer has met 70½ minimum withdrawal requirements, consider continued employment exemption for qualified plans. (§ 401(a)(9)(c))	_____	_____	_____
.5) The simplified method of determining basis for annuities.	_____	_____	_____
.6) Current year Roth IRA conversions.	_____	_____	_____
.7) Current year MSA conversion into HSA.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
220) Consider limitations of § 704(d), § 465 at-risk, and/or § 1366(d) basis rules.	_____	_____	_____
221) For prior year losses limited by at-risk rules, determine if additional basis has been generated in the current year to deduct all or a portion of the losses.	_____	_____	_____
222) Consider at-risk limitation (Form 6198) and hobby loss rules on sole proprietor Schedule C.	_____	_____	_____
223) If the taxpayer is an S corporation shareholder facing a potential basis limitation, consider election to reduce basis for items of loss or deduction before reducing basis for noncapital, nondeductible expenses and certain oil and gas depletion deductions. (Reg. § 1.1367-1(f))	_____	_____	_____
224) If the taxpayer is an S corporation shareholder receiving distributions in a loss year, adjust basis for distributions before loss.	_____	_____	_____
225) Calculate possible gain on an S corporation shareholder's receipt of loan payment where the loan basis has previously been reduced.	_____	_____	_____
226) For Schedule(s) K-1:			
.1) Review prior year K-1(s).	_____	_____	_____
.2) Review current year to determine that all items have been properly reported.	_____	_____	_____
227) If a distribution or technical termination has occurred in a partnership, consider both the new allocation of basis rules under § 732(c), § 751(c), and making a § 732(d) election.	_____	_____	_____
228) Determine if there are passive activities (see Passive Activity Checklist). (Note that the activities must be grouped in accordance with Reg. § 1.469-4.)	_____	_____	_____
.1) Consider the \$25,000 special allowance for rental real estate.	_____	_____	_____
.2) Consider the exception for taxpayers that materially participate in real property trades or businesses. (§ 469(c)(7))	_____	_____	_____
.3) Determine if any passthrough entity in which the taxpayer has an interest has separately reported activities.	_____	_____	_____
.4) Review if a disposition or recharacterization of a prior passive activity has occurred.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Determine if personal usage of rental rules apply.	_____	_____	_____
229) Determine and include income subject to self-employment tax. (For example: Schedule C, partnership and other income; note self-employment proposed regulations relating to members of an LLC and rules for retired ministers.)	_____	_____	_____
230) Determine taxability of allowances, scholarships, fellowships, Social Security benefits or disability income received.	_____	_____	_____
231) Determine if there is discharge of indebtedness income.	_____	_____	_____
.1) Consider exclusion and elections under § 108. (Reg. § 1.1017-1)	_____	_____	_____
.2) Consider Form 982.	_____	_____	_____
.3) Consider exclusion from income for cancellation of student loans under certain circumstances. (AJCA 2004)	_____	_____	_____
232) Determine other sources of income. (e.g., gambling winnings, lotteries, jury duty.)	_____	_____	_____
233) Consider the reporting of income and deductions in respect of decedent.	_____	_____	_____
234) Consider appropriate income inclusion amount for leased vehicles and property. (See Vehicle Related Guides)	_____	_____	_____
235) Inquire if the taxpayer engaged in bartering transactions.	_____	_____	_____
236) Consider the mark to market rules for "dealers in securities" under § 475 and the related § 481 adjustment.	_____	_____	_____
237) Consider exclusion for subsidized campus housing of employees.	_____	_____	_____
238) Consider inclusion requirements for punitive damages received.	_____	_____	_____
239) Consider the exclusion from income of accelerated death benefits paid under a life insurance contract. (Form 8853)	_____	_____	_____
240) Consider exclusion from income of proceeds of long-term care insurance. (Form 8853)	_____	_____	_____
241) Consider exclusion from income of cash or rent space reduction received from lessor under a short-term lease of retail space utilized to construct leasehold improvements which will revert to the lessor at termination of the lease.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
242) Consider:			
.1) Exclusion for military death benefits after 9/10/01. (MFTRA 2003)	_____	_____	_____
.2) Filing amended returns for 2001, 2002, and 2003.	_____	_____	_____
300) DEDUCTIONS			
301) For all businesses of the taxpayer reported on Form 1040 Schedule C or F:			
.1) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year-end and paid within 2½ months after year-end).	_____	_____	_____
.2) If uniform capitalization rules apply. (See Uniform Capitalization Checklist)	_____	_____	_____
.3) If long-term contract reporting rules apply. (See Long-term Contract Checklist)	_____	_____	_____
302) For home office deduction consider rules for storage of inventory and product samples. (Note less restrictive definition of "principal place of business".) (§ 280A(c))	_____	_____	_____
303) If employer included 100% of value of use of employer provided auto, etc., on W-2, inquire:			
.1) If client has evidence to support deduction for a portion of the included amount as business use.	_____	_____	_____
.2) If such evidence is written.	_____	_____	_____
304) Determine the applicability of a moving expense deduction and if any associated reimbursement is properly reported.	_____	_____	_____
305) If the taxpayer is entitled to a deduction for contributions to an IRA, a Keogh, a SEP, and/or SIMPLE then review possible alternatives with taxpayer before the return due date.	_____	_____	_____
306) Consider the following:			
.1) If IRA contributions have been or will be made no later than April 15.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Keogh/SEP/SIMPLE plan contributions must be made by the due date of the return, including extensions. Note earnings limit.	_____	_____	_____
.3) Consider catch-up provisions for increased contributions for individuals age 50 and over before the end of the plan year.	_____	_____	_____
.4) Alimony income qualifies for IRA contributions.	_____	_____	_____
.5) IRA contribution amount allowed for nonworking spouse.	_____	_____	_____
.6) Prepare Form 8606 for non-deductible IRA contributions.	_____	_____	_____
.7) Inform client about a possible need to file Forms 5500.	_____	_____	_____
.8) If Keogh plan was adopted prior to year-end.	_____	_____	_____
307) Consider advising taxpayer to contribute to nondeductible Education Savings Accounts, § 529 plans, and/or Roth IRAs.	_____	_____	_____
308) Consider advising client to convert from traditional IRA to Roth IRA.	_____	_____	_____
309) For medical deductions consider:			
.1) Medical travel deductions.	_____	_____	_____
.2) Deduction of Medicare premiums.	_____	_____	_____
.3) Self-employed health insurance premiums including more than 2% S corporations shareholders. (Note eligibility to take an above-the-line deduction for long-term health care premiums is considered separately from eligibility to take a deduction for health care premiums.)	_____	_____	_____
.4) Contributions to a medical savings account (MSA) or health savings account (HSA).	_____	_____	_____
.5) Deduction of qualifying long-term care services and certain long-term care insurance premiums.	_____	_____	_____
.6) Smoking cessation plans. (Rev. Rul. 99-28)	_____	_____	_____
.7) Weight loss programs. (Rev. Rul. 2002-19)	_____	_____	_____
310) Consider deduction for tax paid:			
.1) State and local income.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Real property.	_____	_____	_____
.3) Personal property.	_____	_____	_____
.4) Foreign (if credit not claimed).	_____	_____	_____
.5) Other.	_____	_____	_____
.6) State and local sales tax election. (AJCA 2004)	_____	_____	_____
311) Allocation of interest expense:			
.1) Determine that the proper allocations have been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.).	_____	_____	_____
.2) For interest on debts allocated to more than one expenditure, determine that the proper ordering of loan repayments has been considered.	_____	_____	_____
.3) Determine that the interest has been properly reallocated when either:			
.a) The subject of the first expenditure has been disposed of and the proceeds are used for another expenditure, or	_____	_____	_____
.b) the character of the expenditure has changed.	_____	_____	_____
312) Investment interest:			
.1) Limit the taxpayer's deduction for investment interest to net investment income.	_____	_____	_____
.2) In computing net investment income, deduct investment expenses after application of the 2% AGI floor.	_____	_____	_____
.3) Consider the election to treat net long-term capital gain as investment income subject to ordinary income tax rates.	_____	_____	_____
.4) Consider the election to treat dividends as investment income subject to ordinary income tax rates. (JGTRRA 2003)	_____	_____	_____
.5) Consider if there is deductible interest paid on split-dollar arrangements.	_____	_____	_____
313) Determine that personal interest was not deducted.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
314) Qualified residence interest:			
.1) Inquire that qualified residence interest is limited to the principal residence of the taxpayer and one other qualified residence of the taxpayer; that all such debts are secured by such residences and "perfected" and the deduction is limited to:			
.a) Interest paid on acquisition indebtedness.	_____	_____	_____
.b) Home equity indebtedness.	_____	_____	_____
.c) Consider limitations on mortgages taken out after October 13, 1987.	_____	_____	_____
.2) Consider election out of qualified residence interest for appropriate debt (interest on excess debt may be classified as investment interest, etc.).	_____	_____	_____
.3) Provide complete information for interest deductions on seller-provided financing.	_____	_____	_____
.4) Determine if points were paid at closing for acquisition indebtedness or amortizable points paid on refinancing.	_____	_____	_____
.5) Write-off of unamortized points on a refinance with different institution.	_____	_____	_____
315) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
316) Consider adjustment to income for student loan interest, including capitalized interest and loan origination fees.	_____	_____	_____
317) Other interest issues:			
.1) Treat amortizable bond premium (for bonds acquired after 1987) as an offset to interest income.	_____	_____	_____
.2) Consider the capitalization of interest rules when the taxpayer is constructing or producing certain real or tangible personal property.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current or former beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. (Note phase-in rules and additional limitations for new or materially changed contracts issued after June 8, 1997.)	_____	_____	_____
.4) Determine that interest is not claimed for a loan made or renewed after 1986 from a qualified retirement plan to a key employee or if such loan is guaranteed by § 401(k) deferrals.	_____	_____	_____
.5) Consider treatment of interest on debt used to acquire an interest in a pass-through entity, and the self-charged interest provisions.	_____	_____	_____
.6) Consider treatment of interest on debt financed distributions from pass-through entities.	_____	_____	_____
318) For charitable contributions consider:			
.1) If contributions are to qualified charitable organizations.	_____	_____	_____
.2) Charitable contribution deduction limitations and record any carryover amounts.	_____	_____	_____
.3) Reduction of contribution deduction due to value of college athletic tickets or token benefits.	_____	_____	_____
.4) Charitable travel deduction and out-of-pocket expenses.	_____	_____	_____
.5) Total non-cash contributions in excess of \$500:			
.a) Complete Form 8283.	_____	_____	_____
.b) Consider the necessity of an appraisal.	_____	_____	_____
.6) If adequate contemporaneous documentation was obtained for:			
.a) Contributions of \$250 or more.	_____	_____	_____
.b) Quid pro quo contributions in excess of \$75.	_____	_____	_____
.7) The exception allowing the deduction of the fair market value of qualified appreciated stock donated to a private foundation.	_____	_____	_____
319) Review all personal casualty gains and losses for proper reporting. Consider option to deduct current year qualifying losses on preceding year tax return by filing an amended return.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
320) Consider vacation home deduction limitations.	_____	_____	_____
321) Inquire if the taxpayer can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel, conventions, and listed property. (Note optional per diem method and limitation on deductibility of certain non-employee travel expenses.)	_____	_____	_____
322) Limit meals and entertainment deduction to the allowable percentage. Consider exceptions including employer-provided meals.	_____	_____	_____
323) If expense reimbursements under “unaccountable plans” are included in income, consider deducting expenses on Schedule A.	_____	_____	_____
324) Consider deduction of unused loss carryovers and excess deductions on termination from estates and trusts.	_____	_____	_____
325) Inquire if taxpayer has bad debts or § 1244 stock transactions to be reflected in the current year return.	_____	_____	_____
326) Review partially worthless debt for write-off under Reg. § 1.166-3.	_____	_____	_____
327) Consider limitations on deducting expenses related to federally tax-exempt income. Note these expenses may be deductible at the state level if the related income is state taxable.	_____	_____	_____
328) Consider that otherwise allowable deductions, other than medical costs, casualty and theft losses, and investment interest, are reduced by 3% of the taxpayer’s adjusted gross income in excess of the threshold amount.	_____	_____	_____
329) If this is the first year that the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception. (Rev. Proc. 92-28)	_____	_____	_____
330) Determine the deductibility of club dues. (§ 274(a)(3))	_____	_____	_____
331) Inquire if trade association dues include nondeductible lobbying expenses.	_____	_____	_____
332) Determine that certain lobbying expenses are not deducted. (Note exceptions.)	_____	_____	_____
333) Consider capitalizing carrying charges (interest, taxes, etc.) on non-productive property.	_____	_____	_____
334) Consider above-the-line deduction for educators’ out-of-pocket classroom expenses.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
335) Consider above-the-line deduction for qualified higher education tuition and fees.	_____	_____	_____
336) Consider above-the-line deduction for clean-fuel vehicle. (§ 179A)	_____	_____	_____
337) Consider above-the-line deduction for travel expenses of National Guard troops and reservists. (MFTRA 2003)	_____	_____	_____
338) Consider rural mail carrier's unreimbursed vehicle expense as miscellaneous itemized deduction. (AJCA 2004)	_____	_____	_____
339) Consider above-the-line deduction for legal fees and court costs paid in wrongful discrimination claim. (AJCA 2004)	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) For assets placed in service during the current year:			
.1) Consider additional first-year depreciation allowance of:			
.a) 50% of adjusted basis of "50-percent bonus depreciation property" placed in service before January 1, 2005. (JGTRRA 2003)	_____	_____	_____
.b) 30% of adjusted basis for 50% bonus depreciation property placed in service before January 1, 2005. (Note special election must be made on tax return.) (JGTRRA 2003)	_____	_____	_____
.c) Election out of bonus depreciation.	_____	_____	_____
.2) Consider § 179 election to expense qualifying assets. Note current allowable amounts.	_____	_____	_____
.3) Consider "off-the-shelf software" as eligible for § 179 election for tax years beginning after 2002 and ending before 2006. (JGTRRA 2003)	_____	_____	_____
.4) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property.	_____	_____	_____
.5) Determine the depreciable basis of each asset.	_____	_____	_____
.6) Determine the property class, recovery period and depreciation method for each asset. (Note limitations on property qualifying for income forecast method and designated lives of rent-to-own property.)	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.7) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.8) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period.	_____	_____	_____
.9) Determine if leasehold improvements is "qualified leasehold improvement property" or restaurant property for use of 15-year recovery period for property placed in service after October 22, 2004 and before 2006. (AJCA 2004)	_____	_____	_____
.10) Note 36-month amortization rules for software.	_____	_____	_____
.11) Consider reduced depreciable lives for real estate improvements and special use structures.	_____	_____	_____
.12) Consider separate component analysis for building items. (HCA 109 T.C. 21)(Comm vs Brookshire Brothers Holding, Inc., 5 th Cir; 01-60978, 1/29/03)	_____	_____	_____
.13) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.14) Consider electing the 150% DB method over the recovery periods applicable to the regular tax for tangible personal property otherwise qualifying for the 200% DB method.	_____	_____	_____
.15) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.16) If property is leased to a tax-exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.17) Consider depreciation limitations for Industrial Development Bond (IDB) financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.18) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.19) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.20) Determine if interest is payable under look-back method where income forecast method is used. (Note interest calculation change.)	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.21) Consider modifications to the income forecast method of depreciation for property placed in service after October 22, 2004 as it relates to "participations and residuals." (AJCA 2004)	_____	_____	_____
.22) Consider election under § 181(a)(2) to deduct cost of production in the year incurred for qualified film and television productions for costs incurred after October 22, 2004 and before January 1, 2009. (AJCA 2004)	_____	_____	_____
.23) Consider accelerated depreciation for qualifying property located on Indian reservations.	_____	_____	_____
.24) Determine if New York Liberty Zone or NYC benefits and incentives are applicable.	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
403) Consider the provisions of Rev. Proc. 2002-54 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____
404) Determine if leased property/equipment should be capitalized.	_____	_____	_____
405) Consider anti-churning rules.	_____	_____	_____
406) For listed property (e.g., cellular phones, vehicles, computers, airplanes, boats):			
.1) For business vehicles, consider the maximum allowable under the luxury auto rules. Note exceptions for clean burning, electric and vehicles with GVW of more than 6,000 lbs. and qualified non-personal use trucks and vans placed in service after July 6, 2003. (Reg. 1.280 F-6) Note first-year dollar limitations. (Rev. Proc. 2004-20)	_____	_____	_____
.2) For business vehicles purchased after October 22, 2004, consider the new expensing limitations for sports utility vehicles rated at 14,000 lbs. gross vehicle weight or less. (AJCA 2004)	_____	_____	_____
.3) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.4) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Inquire if the individual has kept the required records indicating the business and personal use of property. Note certain travel between home and temporary work locations is considered business.	_____	_____	_____
.6) Determine recapture if the business usage has declined to 50% or less.	_____	_____	_____
407) Depreciation of property received in a like kind exchange or involuntary conversion. (Reg. § 1.168(i)-6T for transactions occurring after February 27, 2004, and Notice 2000-4 for transactions occurring prior to this date.)	_____	_____	_____
408) Form 4562 if required:			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete all questions regarding personal use of listed property. Also applies to standard mileage rate autos unless Form 2106 or Schedule C Part IV is used.	_____	_____	_____
.3) If costs were incurred during the current year, determine that all amortizable items are separately stated and the proper Code section cited.	_____	_____	_____
409) Consider state depreciation, if different.	_____	_____	_____
410) Consider federal and state AMT depreciation. (Note depreciable lives of tangible personal property placed in service after 1998 are the same for regular and AMT purposes.) (Note also that the 30% and 50% first-year depreciation applies for AMT purposes.)	_____	_____	_____
411) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. (Note credit recapture.)	_____	_____	_____
412) Report depreciation recapture and related investment credit recapture if taxpayer converted depreciable business assets to non-business personal assets.	_____	_____	_____
413) Determine depreciation allowable after "use-change." (Reg. § 1.168(i)-4)	_____	_____	_____
414) Consider Rev. Proc. 2004-11 for claiming depreciation after disposal of asset.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
500) TAX COMPUTATIONS AND CREDITS			
501) Compute regular tax.	_____	_____	_____
.1) Consider phase-out of itemized deductions and personal exemptions.	_____	_____	_____
.2) Consider capital gains tax computation, noting various rates depending on date of sale, type of asset and holding period.	_____	_____	_____
.3) Consider income averaging for farmers and fishermen. (AJCA 2004) (Note AMT exception.)	_____	_____	_____
.4) Consider that certain lottery winners are no longer subject to current tax on entire winnings. (§ 451(h))	_____	_____	_____
.5) Consider income tax relief for military participants. (Note provisions of MFTRA 2003.)	_____	_____	_____
.6) Consider the taxation of qualifying dividends at reduced rates. (JGTRRA 2003)	_____	_____	_____
502) Alternative minimum tax must be computed by making adjustments such as:			
.1) Personal exemptions allowed in computing regular tax liability.	_____	_____	_____
.2) Depreciation on property placed in service after 1986 (or July 31, 1986, if election was made) must be recomputed using the alternative depreciation system. (Rev. Proc. 87-57)	_____	_____	_____
.3) Determine that the same recovery period was used for regular tax and AMT for property placed in service after 1998.	_____	_____	_____
.4) Mining, exploration research and experimental costs must be capitalized and amortized over a ten-year period.	_____	_____	_____
.5) Income from long-term contracts must be computed using the percentage-of-completion method of accounting. (Note exception for "home construction contracts.")	_____	_____	_____
.6) Income from dispositions of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the qualified installment sale.	_____	_____	_____
.7) Use AMT net operating loss (NOL) deduction in place of the regular NOL deduction.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.8) Compute gains/losses on sales and exchanges using the AMT adjusted basis.	_____	_____	_____
.9) The spread between the fair market value at the time of exercise and the purchase price of incentive stock options. (Note exception for early disposition.)	_____	_____	_____
.10) Adjust itemized deductions for the following AMT rules:			
.a) No deduction is allowed for miscellaneous itemized deductions or most taxes.	_____	_____	_____
.b) Medical expenses are subject to a 10% floor.	_____	_____	_____
.c) Qualified housing interest expense is restricted.	_____	_____	_____
.d) State tax refunds are excluded from AMTI.	_____	_____	_____
.e) Overall itemized deduction limitation (3% rule) amount is added back.	_____	_____	_____
.11) The following preference items must be added:			
.a) Excess intangible drilling costs. Consider election to amortize over 60 months and the § 57(a)(2)(E) exclusion. (See Oil and Gas Practice Guide in this package)	_____	_____	_____
.b) Tax-exempt interest on private activity bonds issued after August 7, 1986.	_____	_____	_____
.c) Accelerated depreciation on real and leased personal property placed in service before 1987.	_____	_____	_____
.12) Consider special rules denying certain losses for AMT purposes:			
.a) Net passive activity losses as adjusted for tax preferences. (Form 8582)	_____	_____	_____
.b) Certain farm losses.	_____	_____	_____
.c) Insolvent taxpayers.	_____	_____	_____
.13) Consider AMT foreign tax credit.	_____	_____	_____
503) Consider tax credits such as:			
.1) Child and dependent care credit. (Form 2441)	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Credit for the elderly or disabled. (Schedule R)	_____	_____	_____
.3) Child tax credit.	_____	_____	_____
.4) Education credits:			
.a) Hope.	_____	_____	_____
.b) Lifetime Learning.	_____	_____	_____
.c) Consider deduction as opposed to credit for greater benefit.	_____	_____	_____
.5) Adoption credit. (Note the adoption credit may be allowed for adoption expenses paid or incurred in a tax year after the year in which the adoption became final.) (Note higher credit for special needs child. Obtain SSN, ATIN, or ITIN if necessary.) (Form 8839)	_____	_____	_____
.6) Credit for interest paid on Mortgage Credit Certificates. (Form 8396)	_____	_____	_____
.7) Foreign tax credit. (Form 1116)	_____	_____	_____
.8) Earned income credit. Note preparer due diligence requirements under Reg. § 1.6695-2. (Schedule EIC)	_____	_____	_____
.9) General business credit. (Form 3800)	_____	_____	_____
.10) Research and Experimentation Credit. (Form 6765)	_____	_____	_____
.11) Low-income housing credit. (Form 8586)	_____	_____	_____
.12) Disabled access credit. (Form 8826)	_____	_____	_____
.13) Rehabilitation credit.	_____	_____	_____
.14) Minimum tax credit. (Form 8801)	_____	_____	_____
.15) Credit for employer-paid Social Security taxes on employee cash tips. (Form 8846)	_____	_____	_____
.16) Empowerment zone employment credit. (Form 8844)	_____	_____	_____
.17) Credit for qualified electric vehicles. (Form 8834)	_____	_____	_____
.18) Credit for qualified clinical testing expenses (Orphan Drug Credit and associated carrybacks and carryovers).	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.19) Work opportunity credit for eligible employees. (Form 5884)	_____	_____	_____
.20) Welfare-to-work credit for eligible employees. (Form 8861)	_____	_____	_____
504) Determine if the taxpayer is subject to:			
.1) Self-employment tax. (See item 229.)	_____	_____	_____
.2) Credit recaptures. (Investment credit, low-income housing credit, qualified electric vehicle credit, mortgage interest credit)	_____	_____	_____
.3) Social Security tax on tip income. (Form 4137)	_____	_____	_____
.4) Form 5329 - tax on:			
.a) Premature distributions.	_____	_____	_____
.b) Overfunding of IRAs and other qualified plans.	_____	_____	_____
.c) Failure to withdraw.	_____	_____	_____
505) Determine if the taxpayer has paid excess FICA.	_____	_____	_____
506) Determine if there was withholding on interest, dividends, sale transactions, retirement plan distributions or other sources of income.	_____	_____	_____
507) Confirm amounts and dates of any federal, state and local estimated tax deposits/payments (including withholding) for the year, prior year overpayments, and extension payments.	_____	_____	_____
508) If withholding and estimated tax payments are less than required, consider filing Form 2210.	_____	_____	_____
509) In an overpayment situation, consider filing Form 8379 "Injured Spouse Claim" if taxpayer's spouse has outstanding child or spousal support payments or certain federal debt.	_____	_____	_____
510) Consider filing Form 9465, Installment Agreement Request. (Note effect on any existing installment agreements.)	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Compare taxable income and tax to projections for reasonableness.	_____	_____	_____
602) Consider changes needed in withholding or estimated tax for the forthcoming year and set up estimated tax. (Note safe harbor rules.)	_____	_____	_____
603) If the taxpayer sold partnership interests during year, determine:			

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) That appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	_____	_____
.2) That the required statement under Reg. § 1.751-1(a)(3) is attached if the partnership had § 751(a) assets.	_____	_____	_____
604) If taxpayer acquired partnership interests, consider providing appropriate information to partnership under Reg. § 1.743-1(k)(2).	_____	_____	_____
605) Determine if:			
.1) Form 8271 is required for tax shelters.	_____	_____	_____
.2) Tax shelter disclosure statements under Reg. § 1.6011-4 if individual participates, directly or indirectly, in listed transactions.	_____	_____	_____
606) Consider making § 190 election to expense cost of expenditures exceeding the limit for the disabled access credit or for those taxpayers who do not qualify for the disabled access credit.	_____	_____	_____
607) Consider the election to forgo the net operating loss carryback:			
.1) If electing to forgo, attach required statement.	_____	_____	_____
.2) If carrying back, prepare Form 1045 or Form 1040X. (Note exceptions.)	_____	_____	_____
.3) Consider state differences.	_____	_____	_____
608) If the taxpayer is divorced or separated:			
.1) Complete Divorce Issues Checklist.	_____	_____	_____
.2) Determine the appropriate bases of property transferred.	_____	_____	_____
.3) Attach Form 8332 or a copy of the authorizing documentation for dependency exemption on non-custodial parent's tax return.	_____	_____	_____
609) If under age 14 dependent meets filing requirements:			
.1) Consider need to report taxable income information on dependent's returns.	_____	_____	_____
.2) If parent elects to report child's interest and dividends, prepare Form 8814.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
610) If final return of deceased taxpayer, determine if the proper allocation has been made for all items of income, deduction and credits between this return and the estate income tax return.	_____	_____	_____
611) If the taxpayer has made an "applicable asset acquisition" transfer of assets (that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met. (Form 8594)	_____	_____	_____
612) Consider § 6662 accuracy-related penalty. If applicable consider:			
.1) If substantial authority exists for the item in question. If not, consider disclosure. (Form 8275 or 8275R)	_____	_____	_____
.2) Advising the taxpayer, in writing, of the penalty.	_____	_____	_____
613) Information returns:			
.1) Inquire if the taxpayer has filed all required information returns (1098, 1099 and 1042 series) and if the value of personal use portion of employer property, expense reimbursements under "unaccountable plans" and § 401(k) deferred compensation information has been included in employees' W-2s. (Note reporting requirements on certain payments made to attorneys.)	_____	_____	_____
.2) Inquire if the taxpayer has complied with electronic filing requirements for Forms 1099 and W-2.	_____	_____	_____
.3) Inquire if additional items subject to employer FICA such as § 401(k) deferrals, employer-provided excess group-term life insurance, all cash tips, etc., have been properly reported.	_____	_____	_____
.4) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported.	_____	_____	_____
.5) Consider filing information returns relating to foreign partnerships and corporations.	_____	_____	_____
614) Inquire if employment taxes were timely deposited.	_____	_____	_____
.1) Consider EFTPS requirements.	_____	_____	_____
.2) Note higher deposit limits.	_____	_____	_____
615) Consider informing client of requirement to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____

INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004 FORM 1040

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
616) Determine that 5500 series forms have been filed for cafeteria plans and for welfare benefit plans (e.g., medical benefit plans, life insurance, disability or death benefit plans) that have more than 100 participants.	_____	_____	_____
617) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts.	_____	_____	_____
618) Determine if gift tax returns are required. (See 709 checklist)	_____	_____	_____
619) For gifts received by a U.S. person from foreign donors under § 6039F, consider need to file information return.	_____	_____	_____
620) Include Form 1040-V for payment (note IRS lockbox address). Checks should be payable to "United States Treasury". If considering credit card payment, note taxpayer pays the credit card fee.	_____	_____	_____
621) Consider direct deposit for refunds.	_____	_____	_____
622) Include/attach extension request(s).	_____	_____	_____
623) Prepare filing instructions and transmittal letter.	_____	_____	_____
624) Note tax planning/additional service suggestions.	_____	_____	_____
625) Consider partial payment installment agreement of tax. (AJCA 2004)	_____	_____	_____

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST
ESTATE AND TRUST INCOME TAX RETURN
2004 - FORM 1041

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION					
1. Consider signed engagement letter/separate engagement privilege letter.	_____	_____	23. Determine if a foreign trust.	_____	_____
2. Review and update taxpayer information including beneficiaries' names, addresses, Social Security numbers and birth dates.	_____	_____	24. Confirm proof as U.S. citizens for grantor and beneficiaries.	_____	_____
3. Review prior year returns, workpapers, correspondence and audit results.	_____	_____	25. Complete Form 1040 Schedule H.	_____	_____
4. Check for carryovers and update schedules including effect of prior tax audits.	_____	_____	INCOME		
5. Verify that a copy of will or trust agreement, Form 706 or Form 709 is in file.	_____	_____	1. Compare sources of income with prior year.	_____	_____
6. Verify classification of trust (grantor, simple, complex, bankruptcy, etc.).	_____	_____	2. Properly report all adjustments from changes in accounting period or method.	_____	_____
7. Review court filings for accounting and tax information.	_____	_____	3. Sale or dispositions of property: Check for related party sales & consequences. Like-kind exchanges. Utilize suspended losses. Installment sale. See related Checklist. Involuntary conversions.	_____	_____
8. Determine situs of estate trust.	_____	_____	4. Determine holding period and basis of sold assets.	_____	_____
9. Determine residencies of fiduciary and beneficiaries.	_____	_____	5. Review passive loss limitations and carryovers. See Checklist.	_____	_____
10. Determine state filing requirements.	_____	_____	6. Review K-1s for proper reporting of data.	_____	_____
11. Determine basis for all assets received.	_____	_____	7. Consider election for gain/loss on distributed property (§ 643(e)).	_____	_____
12. Inquire if foreign financial accounts exist.	_____	_____	8. Compute accounting income.	_____	_____
13. Determine basis adjustment due to grantor's death.	_____	_____	9. Determine if capital gains are allocated to DNI.	_____	_____
14. If first return, allocate income and deductions among trust, estate and/or 1040.	_____	_____	10. Determine if there is discharge of indebtedness income.	_____	_____
15. Determine changes in interests of beneficiaries during year.	_____	_____	11. Determine limitation on losses from related party transactions.	_____	_____
16. Review proforma/organizer for accuracy.	_____	_____	DEDUCTIONS		
17. Review accounting methods.	_____	_____	1. Determine proper allocations and limitations on interest expense relating to the following expenditures: investments, trade/business, passive, tax-exempt, etc.	_____	_____
18. Consider Form 56.	_____	_____	2. If tax-exempt income, allocate deductions.	_____	_____
19. Review for trust termination date.	_____	_____	3. Determine that amortizable items are written off over the correct period.	_____	_____
20. Inquire about fiduciary changes.	_____	_____	4. Inquire about other allowable deductions (charitable, taxes, business, worthless securities, casualty losses).	_____	_____
21. Note GST inclusion ratio and determine that adequate support is in the file to verify inclusion ratio.	_____	_____	5. T&E expenses - inquire if support is adequate.	_____	_____
22. Consider filing power of attorney.	_____	_____			

MINI-CHECKLIST
ESTATE AND TRUST INCOME TAX RETURN
2004 - FORM 1041

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
			OTHER REQUIREMENTS		
6. Limit deduction for meals and entertainment to allowable percentage.	—	—	1. Compare taxable income to projections.	—	—
7. Compute distribution deduction.	—	—	2. Prepare estimated tax vouchers.	—	—
8. Consider 65-day distribution election.	—	—	3. Determine if estimated tax should be 100% or 110% of prior year.	—	—
9. Determine if a deduction for estate tax attributable to income in respect of a decedent is available.	—	—	4. Prepare Schedule(s) K-1.	—	—
10. Consider that accumulation distributions do not apply to most domestic trusts.	—	—	5. If trust tax payments are allocated to beneficiaries, file Form 1041-T within 65 days of year-end.	—	—
11. Attach election for Form 1041 deductions that could have been claimed on Form 706.	—	—	6. Inquire if information returns have been filed.	—	—
DEPRECIATION/AMORTIZATION			7. Consider election to forgo NOL carryback.	—	—
1. Consider the following:			8. Consider credits for multistate returns.	—	—
• 50% additional first-year depreciation (JGTRRA 2003)	—	—	9. Determine excess deductions or losses available to beneficiaries in final year.	—	—
• Methods and lives	—	—	10. Determine if a generation-skipping distribution was made; if so prepare Form 706-GS(T) or GS(D) and (D-1).	—	—
• Listed property	—	—	11. Consider risk of accuracy-related penalty (§ 6662).	—	—
• Capitalization of leased property	—	—	12. Attach extension request(s).	—	—
• Qualified leasehold improvement property (AJCA 2004)	—	—	13. Note tax planning/additional service suggestions.	—	—
• Amortization of goodwill and other intangibles	—	—			
• 30% additional first-year depreciation election for 50% bonus depreciation property (JGTRRA 2003)	—	—			
• Election out of bonus depreciation	—	—			
2. Compute AMT depreciation.	—	—			
3. Compute state depreciation, if different.	—	—			
TAX COMPUTATION AND CREDITS					
1. Compute tax, including AMT.	—	—			
2. Compute AMT-DNI.	—	—			
3. Compute credit recapture.	—	—			
4. Confirm prior year overpayments, estimates and extension payments.	—	—			
5. Compute underpayment penalties.	—	—			
6. Consider tax credits.	—	—			

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004—FORM 1041

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider:			
.1) Signed engagement letter.	_____	_____	_____
.2) Separate engagement letter for tax advise under the CPA-client privilege provisions of § 7525.	_____	_____	_____
102) Review and update fiduciary's name, address, beneficiaries, social security numbers, etc., and IRS tax processing centers.	_____	_____	_____
103) Review permanent file, prior returns, workpapers, etc.	_____	_____	_____
104) Obtain information concerning IRS and state tax audits, and/or correspondence.	_____	_____	_____
105) Check for carryover items and update carryforward schedules including effect of prior tax audits.	_____	_____	_____
106) Verify that copies of will or trust and Form 706 or 709, if applicable, and the date created for GST purposes are in the file.	_____	_____	_____
107) Determine proper classification of trust (grantor, simple, complex, qualified disability trust, ESBT, pooled income fund, bankruptcy estate).	_____	_____	_____
108) Determine proper basis of property passing from a decedent.	_____	_____	_____
109) Determine situs of trust.	_____	_____	_____
110) Determine residencies of fiduciary and beneficiaries.	_____	_____	_____
111) Review proforma/organizer for accuracy.	_____	_____	_____
112) Determine state filing requirements.	_____	_____	_____
113) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
114) Determine if there have been any changes in income interests or rights over corpus of beneficiaries during the year.	_____	_____	_____

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004—FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
115) Inquire about changes in fiduciaries.	_____	_____	_____
116) Determine if gift tax returns are required by grantor.	_____	_____	_____
117) Obtain copies of court filings for accounting or tax information.	_____	_____	_____
118) Consider obtaining copies of marriage, birth and death certificates.	_____	_____	_____
119) Consider obtaining documentation affirming grantor's and beneficiaries' status as U.S. citizens.	_____	_____	_____
120) If first return, determine proper allocation of income and deductions between trust, estate, and/or 1040.	_____	_____	_____
121) Review trust for termination date.	_____	_____	_____
122) Determine accounting income (Reg. § 1.643(b)-1).	_____	_____	_____
123) Consider filing Form 56 (not required).	_____	_____	_____
124) Determine that all current adjustments from changes in accounting method and period are reported.	_____	_____	_____
125) Inquire if foreign financial accounts exist.	_____	_____	_____
126) Note GST exclusion ratio and determine that adequate support is in the file to verify inclusion ratio.	_____	_____	_____
127) Consider filing power of attorney.	_____	_____	_____
128) Determine if a foreign trust.	_____	_____	_____
129) Determine if a U.S. person created or transferred property to a foreign trust.	_____	_____	_____
130) Determine proper reporting if foreign trust has a U.S. grantor or the trust made distributions to a U.S. person.	_____	_____	_____
131) Consider if an "abusive trust arrangement" exists.	_____	_____	_____
132) Determine proper filing if bankruptcy estate of an individual and gross income exceed \$7,950.	_____	_____	_____
133) If an estate, determine if it is open more than 2 years.	_____	_____	_____
134) Inquire if taxpayer had household employees. If yes, complete Form 1040, Schedule H.	_____	_____	_____
135) Consider if disaster relief provisions apply.	_____	_____	_____

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004—FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
200) INCOME			
201) Compare sources of income with prior year.	_____	_____	_____
202) Sale or dispositions of property:			
.1) Check for recapture items.	_____	_____	_____
.2) Review interest rates on debt instruments.	_____	_____	_____
.3) If installment sales apply, see Installment Sale Checklist.	_____	_____	_____
.4) Report proper amount from pledging installment receivables.	_____	_____	_____
.5) Determine the holding period and federal, state, and AMT tax bases of disposed property.	_____	_____	_____
.6) Determine the effect of dividends (stock and reinvested) and OID on bases of sold assets.	_____	_____	_____
.7) Consider rules for related party and like-kind exchanges. (Form 8824)	_____	_____	_____
.8) Utilize suspended losses.	_____	_____	_____
.9) Involuntary conversions.	_____	_____	_____
203) Report gains on constructive sales of appreciated financial positions.	_____	_____	_____
204) Determine proper reporting of all annuities, qualified retirement plans, IRAs, etc.	_____	_____	_____
205) Consider the need for separate passive activity reporting.	_____	_____	_____
206) Consider regular and AMT passive activity loss limitations, carryovers and elections. (See Passive Activity Checklist.)	_____	_____	_____
207) Review Schedules K-1 to determine that all are present and that all items have been consistently reported.	_____	_____	_____
208) Inquire about other possible sources of income such as salaries, dividends, interest, rents, taxable fringe benefits, etc.	_____	_____	_____
209) Determine that gain is reported if appreciated property is used to satisfy pecuniary bequest.	_____	_____	_____
210) Consider the election to recognize gain or loss when property is distributed. (§ 643(e)(3))	_____	_____	_____

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004—FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
211) Consider ordinary income treatment from gain on sale of market discount bonds.	_____	_____	_____
212) Consider the mark-to-market rules for dealers in securities. (§ 475)	_____	_____	_____
213) Determine if there is income from discharge of indebtedness. (Note exclusion and elections under § 108 and Form 982.)	_____	_____	_____
214) If trust is an electing small business trust (§1361(c)(2)(A)(v)) consider special taxation rules under § 641(c).	_____	_____	_____
300) DEDUCTIONS			
301) Determine the proper allocation of, and limitations on, deductions for interest and other expenses relating to:			
.1) Investment expenditures.	_____	_____	_____
.2) Qualified residence interest.	_____	_____	_____
.3) Trade or business expenditures.	_____	_____	_____
.4) Passive activity expenditures.	_____	_____	_____
.5) Tax-exempt investments.	_____	_____	_____
.6) Capitalization of interest during construction.	_____	_____	_____
.7) Inventory and cost of goods sold.	_____	_____	_____
.8) Meals and entertainment expenses (allowable percentage).	_____	_____	_____
.9) Club dues.	_____	_____	_____
302) Consider all depreciation requirements and options including:			
.1) 50% of adjusted basis of "50-percent bonus depreciation property" placed in service before January 1, 2005. (JGTRRA 2003)	_____	_____	_____
.2) Election out of bonus depreciation.	_____	_____	_____
.3) Note that § 179 deduction is not allowed.	_____	_____	_____
.4) Limitations relating to listed property. (Note exceptions for vehicles with GVW of more than 6,000 lbs. and qualified non-personal use trucks and vans placed in service after July 6, 2003 and before October 23, 2004.) (Reg. § 1.280f-6(c)(3)(iii) and Rev. Proc. 2004-20)	_____	_____	_____

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004—FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) For business vehicles purchased after October 22, 2004, consider the new limitations for sport utility vehicles rated at 14,000 lbs. gross vehicle weight or less. (AJCA 2004)	_____	_____	_____
.6) Depreciation of property received in a like-kind exchange or involuntary conversion. (Reg. § 1.168(i)-6T for transactions occurring after February 27, 2004 and Notice 2000-4 for transactions occurring prior to this date.)	_____	_____	_____
.7) Determine if leased property should be capitalized.	_____	_____	_____
.8) Determine if qualified leasehold improvement property or restaurant property for use of 15-year recovery period for property placed in service after October 22, 2004 and before 2006. (AJCA 2004)	_____	_____	_____
.9) Determine basis for federal and state purposes.	_____	_____	_____
.10) Compute state depreciation, if different.	_____	_____	_____
303) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
304) Inquire about other allowable deductions such as charitable contributions, taxes, employee business expense, worthless securities, casualty losses, vacation homes, etc.	_____	_____	_____
305) Determine amount of distribution deduction, limited to taxable income.	_____	_____	_____
306) If there is a property distribution, determine that the amount claimed is equal to the lesser of adjusted basis or fair market value.	_____	_____	_____
307) Determine if loans made after Sept. 19, 1995 by a foreign trust to a U.S. grantor or beneficiary should be treated as distributions.	_____	_____	_____
308) Consider 65-day distribution election for complex trust or estate.	_____	_____	_____
309) Determine the amount of deduction for estate tax attributable to income in respect of decedent, including generation-skipping transfer tax.	_____	_____	_____
310) Attach proper election for items deducted on Form 1041 that could have been claimed on Form 706.	_____	_____	_____
311) Determine passive activity reporting for activities distributed to beneficiaries.	_____	_____	_____
312) Determine limitation on losses from related party transactions.	_____	_____	_____

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004—FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
313) Determine if basis and loss limitation rules apply. (§§ 267, 469, 704(d), 1366(d))	_____	_____	_____
314) Determine that there is no § 6166 interest deduction for decedents dying after 1997.	_____	_____	_____
315) Determine if executor elected prior to 1999 to make remaining estate tax payments under TRA 1997 procedures.	_____	_____	_____
316) Consider capitalization of carrying charges on non-productive property.	_____	_____	_____
400) TAX COMPUTATION AND CREDITS			
401) Compute tax, including alternative minimum tax.	_____	_____	_____
402) Compute all applicable credits, including carryovers.	_____	_____	_____
403) Claim prior year overpayment applied, estimate payments, and extension payment.	_____	_____	_____
404) Compute credit recapture.	_____	_____	_____
405) Compute tax underpayment penalties.	_____	_____	_____
406) If multistate filing, claim credit for taxes paid to nonresident states.	_____	_____	_____
500) OTHER REQUIREMENTS			
501) Compare taxable income to projections.	_____	_____	_____
502) Prepare estimated tax vouchers.	_____	_____	_____
503) If estimate is based on prior year, determine if 100% or 110% rule applies.	_____	_____	_____
504) Determine that proper classifications of income have been made on Schedule(s) K-1.	_____	_____	_____
505) Determine if estimated tax payments should be allocated to beneficiaries. File Form 1041-T within 65 days after year-end.	_____	_____	_____
506) Consider that most domestic trusts are not subject to accumulation distributions.	_____	_____	_____
507) If Form 8271 is required for tax shelters, attach it to Schedule K-1.	_____	_____	_____
508) Consider election to forgo net operating loss carryback.	_____	_____	_____

SHORT VERSION
ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004—FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
509) Consider inconsistent treatment notice for income not consistently reported. (§ 6034A)	_____	_____	_____
510) Consider risk of accuracy-related penalty. (§ 6662)	_____	_____	_____
511) Prepare state and local tax returns.	_____	_____	_____
512) Determine if excess deductions or losses are available to beneficiaries in final year.	_____	_____	_____
513) Determine if there has been a generation-skipping distribution, if so, prepare Form 706-GS(D), 706-GS(D-1) or 706-GS(T).	_____	_____	_____
514) Attach extension requests.	_____	_____	_____
515) Inquire if information returns (Forms 1098, 1099, etc.) have been filed.	_____	_____	_____
516) Inquire if employment taxes paid/timely deposits.	_____	_____	_____
517) Note the higher deposit limits for employment taxes.	_____	_____	_____
518) Consider distribution of income reconciliation to beneficiary.	_____	_____	_____
519) Note tax planning/additional service suggestions.	_____	_____	_____
520) Consider tax shelter disclosure statement under Reg. § 1.6011-4.	_____	_____	_____

COMMENTS OR EXPLANATIONS

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider:			
.1) Signed engagement letter.	_____	_____	_____
.2) Separate engagement letter for tax advice under the CPA-client privileges provisions of § 7525.	_____	_____	_____
102) Review and update the trust or estate's name, address, fiscal year, type of entity, identification number, date entity was created, and IRS processing centers.	_____	_____	_____
103) Review permanent file, prior year returns, memos, workpapers, correspondence files.	_____	_____	_____
104) Review proforma/organizer for accuracy.	_____	_____	_____
105) Verify that copies of the trust agreement or will and Form 706 or Form(s) 709, and the date created for GST purposes are in the permanent file. Check for amendments, revisions, litigation, etc., since last review.	_____	_____	_____
106) Inquire about changes in fiduciaries. If changed, obtain documentation relating to approval and acceptance of successor fiduciary.	_____	_____	_____
107) Determine proper classification of trust (grantor, simple, complex, qualified disability trust, ESBT, pooled income fund, bankruptcy estate).	_____	_____	_____
108) If grantor trust, consider alternative reporting methods. (Note a final Form 1041 for the tax year immediately preceding first year of alternative reporting should be filed.) (Reg. § 1.671-4(g))	_____	_____	_____
109) If the trust or estate has been examined by the IRS or state taxing authority:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine that the agent's adjustments have been entered in the trust or estate's records and appropriate carryover workpapers.	_____	_____	_____
.3) Consider filing amended returns if the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal or state returns for the same year.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
110) Obtain copies and consider impact of correspondence with IRS or state taxing authority.	_____	_____	_____
111) Obtain copies of any court filings containing pleadings of inventories, accounting or tax information, claims, and reconcile discrepancies.	_____	_____	_____
112) Inquire about any correspondence between fiduciary and beneficiaries relating to distributions, including appropriate notification of remainder beneficiaries.	_____	_____	_____
113) Document the various provisions of the trust document and applicable state laws that determine the tax treatment of income, corpus, and distributions.	_____	_____	_____
114) Determine if any related state has adopted revised principal and income act, or amended other related laws since previous year.	_____	_____	_____
115) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Net operating loss.	_____	_____	_____
.2) Capital loss.	_____	_____	_____
.3) Investment credit.	_____	_____	_____
.4) Minimum tax credit.	_____	_____	_____
.5) Other credits.	_____	_____	_____
.6) Installment sales. Consider applicable tax rates for components of gain.	_____	_____	_____
.7) Change of accounting adjustments. (§ 481)	_____	_____	_____
.8) Passive activity losses/credits.	_____	_____	_____
.9) Suspended losses/credits due to basis and/or at-risk limitations.	_____	_____	_____
.10) Partnership, LLC or S Corporation basis.	_____	_____	_____
.11) "Publicly traded partnership" losses.	_____	_____	_____
.12) Investment interest.	_____	_____	_____
.13) Nontaxable dividends, or reinvested dividends or original issue discount (OID).	_____	_____	_____
.14) Prior year overpayment(s) credited to subsequent year.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.15) Distributions within 65 days of year-end exceeding DNI.	_____	_____	_____
.16) Deadline for replacing involuntarily converted property.	_____	_____	_____
116) Determine that the box has been checked when estate has been open more than 2 years.	_____	_____	_____
117) Inquire if the trust or estate has made or received any below-market loans. If so, determine imputed interest consequences and existence of properly executed notes.	_____	_____	_____
118) Review for adequate stated interest on debt instruments:			
.1) Determine whether OID or the unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.2) Consider election for purchased discount under § 1278.	_____	_____	_____
119) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-5 for debt instrument providing contingent payments.	_____	_____	_____
120) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
121) If accrual method of accounting, note exception from economic performance for recurring items.	_____	_____	_____
122) Inquire that information regarding beneficiaries' names, social security numbers, addresses, states of residency, dates of birth, etc., is correct.	_____	_____	_____
123) Consider obtaining copies of marriage certificates and birth certificates of beneficiaries.	_____	_____	_____
124) Consider obtaining copies of death certificates of decedents (estates) and beneficiaries.	_____	_____	_____
125) Consider obtaining documentation affirming grantor(s) and/or beneficiaries' status as U.S. citizens.	_____	_____	_____
126) If beneficiary is not a U.S. citizen or resident, determine that current Forms W-8 and 1001 are in file.	_____	_____	_____
127) Determine if there have been changes in income interests of beneficiaries during the year and document.	_____	_____	_____
128) Determine if there have been changes in rights over corpus during the year.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
129) Determine accounting income as provided under the governing document and applicable state laws. (Reg. § 1.643(b)-1)	_____	_____	_____
130) Determine that short-term capital gains distributed by mutual funds are taxed as ordinary income (included in DNI). (PLR 9811036)	_____	_____	_____
131) Ascertain if this trust is taxed as a corporation. If so, complete the 1120 checklist.	_____	_____	_____
132) Determine if the grantor (or spouse) has a reversionary interest equal to or greater than 5%.	_____	_____	_____
133) Review powers of trustee.	_____	_____	_____
134) Review documents to determine if trust is income tax defective to grantor (grantor taxed on income).	_____	_____	_____
135) Review powers of spouse or others which may cause grantor trust application.	_____	_____	_____
136) Determine situs of estate or trust for state tax filing requirements.	_____	_____	_____
137) Determine residencies of fiduciaries and beneficiaries and related state income tax return filing requirements as a result of their residences.	_____	_____	_____
138) Determine if multistate filing is required.	_____	_____	_____
139) Review respective state income tax structure for differences in reporting from federal.	_____	_____	_____
140) Review trust agreement for termination date; list date. _____	_____	_____	_____
141) Determine holding period and adjusted basis of assets acquired via donor gift.	_____	_____	_____
142) Review capital assets for changes (reorganizations, stock dividends, reinvested dividends, OID, etc.)	_____	_____	_____
143) Review proper filing requirements if the trust appears to be an "abusive trust arrangement" (a.k.a. "Unincorporated Business Trusts"). (Notice 97-24, 1997-16 IRB)	_____	_____	_____
144) If first return of an estate:			
.1) Consider fiscal year filing.	_____	_____	_____
.2) Determine that income in respect of decedent (IRD) has been properly included, and an appropriate estate tax deduction has been claimed.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
145) If first return, determine proper allocation of income and deductions between trust, estate and/or 1040.	_____	_____	_____
146) Consider filing Form 56 (Fiduciary Relationship Notice) even though not required.	_____	_____	_____
147) Determine if the executor of an estate and the trustee of a qualified revocable trust elect to treat the trust as part of the estate. If so:	_____	_____	_____
.1) Review final Reg. § 1.645-1 for statement of election requirements, and complete new Form 8855 for final trust 1041 and the first 1041 of the estate.	_____	_____	_____
.2) Review §645 and final Reg. § 1.645-1 for definition of qualified trust, applicable date and time prescribed for filing election.	_____	_____	_____
148) Determine proper filing of a bankruptcy estate for an individual under Chapter 7 or 11 of the U.S. Code, if gross income is \$7,950 or more.	_____	_____	_____
149) Determine if taxpayer had household employees.	_____	_____	_____
.1) Obtain state reporting number.	_____	_____	_____
.2) Complete Form 1040 Schedule H.	_____	_____	_____
150) Review GST inclusion ratio, determine that adequate support is in the file to verify inclusion ratio, and obtain copies of "Notice of Allocation" statement from gift tax return.	_____	_____	_____
151) Determine if any beneficiaries are skip persons.	_____	_____	_____
152) Consider filing power of attorney.	_____	_____	_____
153) Determine if the trust is a foreign trust.	_____	_____	_____
.1) Determine if trustee will modify the trust to conform to post 1996 standards. If so, consider attaching disclosure statement to returns for two-year period.	_____	_____	_____
.2) If the trust was in existence as of August 20, 1996, and was treated as a U.S. person, consider election to continue U.S. person treatment if appropriate. (Reg. § 301.7701-7(f))	_____	_____	_____
154) Determine if a U.S. person created a foreign trust. (Note different tax computation method.)	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
155) Determine if Form 3520/3520A is required to be filed in conjunction with creation of a foreign trust or transfer of property to or receipt of property from a foreign trust. (§ 6048(a)) (Note exceptions for Canadian Registered Retirement Savings Plan (RRSP) under U.S.-Canada Treaty)	_____	_____	_____
156) Inquire if a U.S. beneficiary of a foreign trust transferred property to a foreign grantor of the trust.	_____	_____	_____
157) Consider treatment of obligations issued or guaranteed by the trust in connection with property transfers made after February 6, 1995, or any grantor or beneficiary of the trust or related party. (§ 679(a)(3)(c))	_____	_____	_____
158) Consider gain recognition for transfers of property to a foreign trust. (§ 684(a))	_____	_____	_____
159) Determine if the trust was a domestic trust that became a foreign trust. Consider gain recognition. (§ 684(c))	_____	_____	_____
160) Determine if the foreign trust has a U.S. grantor. (Note the reporting requirements of § 6048.)	_____	_____	_____
161) Determine if the foreign trust made distributions, either directly, or indirectly, to a U.S. person. (§ 6048)	_____	_____	_____
162) Determine if there has been an inadvertent change in any person who has the power to cause the domestic or foreign trust to change its tax residence. (Note 12-month replacement period.) (Reg. § 301.7701-7(d)(2)(i))	_____	_____	_____
163) Consider if disaster relief provisions apply.	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of dividend and interest income with prior year items.	_____	_____	_____
202) If first year of estate return, compare income sources of estate with items reported on the decedent's final Form 1040.	_____	_____	_____
203) Compare brokerage and bank statements for assets at year-end, to verify inclusion of all items of income related to the assets.	_____	_____	_____
204) Review 1099s for dividends, interest, and gross proceeds from sales.	_____	_____	_____
205) Review assets to determine if any exist that may produce non-cash income, e.g., OID, market discount, etc.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
206) If a 1099-OID is received, compute includible amount.	_____	_____	_____
207) Review dividends:			
.1) To segregate qualified, taxable, nontaxable and capital gain portions.	_____	_____	_____
.2) Consider if stock dividends are included.	_____	_____	_____
208) Inquire if the trust or estate had investment income from foreign sources and if tax was withheld.	_____	_____	_____
209) Disclose exempt interest on state and municipal bonds. Determine deductible portion of administrative expense.	_____	_____	_____
210) Consider excluding interest on United States obligations from the state returns.	_____	_____	_____
211) Consider state modification for municipal bond interest excluded on federal return.	_____	_____	_____
212) Determine if state tax refund shown on prior year return was received or credited.	_____	_____	_____
213) Review reporting of income tax refunds based on the tax benefit rule.	_____	_____	_____
214) Determine if there was interest on tax refunds.	_____	_____	_____
215) If installment sale rules apply, see Installment Sale Checklist.	_____	_____	_____
216) If after year of installment sale, determine that the proper income is reported after giving recognition to recapture amount.	_____	_____	_____
217) Determine that the basis used for property passing from a decedent is based on fair market value at date of death or other applicable estate tax value.	_____	_____	_____
218) If property was sold, exchanged, or involuntarily converted during the year:			
.1) Reconcile to depreciation schedule.	_____	_____	_____
.2) Determine holding period and basis for federal, state, and AMT tax purposes.	_____	_____	_____
.3) Determine that gains and losses are properly characterized.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) For § 1231 gains, determine the amount subject to ordinary income treatment as a result of five-year recapture rule for prior net § 1231 losses.	_____	_____	_____
.5) Determine that sales of securities settled after year-end, with a trade date within current year, are reported this year. Note special rules for short sales. (§ 1233)	_____	_____	_____
.6) Review application of the wash sale rules.	_____	_____	_____
.7) Report gains on constructive sales of appreciated financial positions.	_____	_____	_____
.8) Review application of straddle rules and available elections under § 1092.	_____	_____	_____
.9) Consider allowable methods of calculating basis on the sale of mutual funds.	_____	_____	_____
.10) Consider if limitations apply for a mutual fund sold within six months of acquisition.	_____	_____	_____
.11) Consider the effect on basis of nontaxable stock dividends, reinvested dividends and OID.	_____	_____	_____
.12) Consider provisions related to:			
.a) Non-recognition of gain or loss. (Form 8824) Note restrictions on exchange of U.S. property for foreign property.	_____	_____	_____
.b) Rules for like-kind and related party exchanges. (Form 8824)	_____	_____	_____
.c) Recapture of depreciation, including § 291 recapture and/or tax credit, or reduction of credit carryforwards. Note § 1245 applications.	_____	_____	_____
.d) Presumption of capital gain relating to subdivision of land. (§ 1237)	_____	_____	_____
.e) Gain from distributions of appreciated property.	_____	_____	_____
.f) Forced sale of livestock on account of weather-related conditions.	_____	_____	_____
.g) Presidentially-declared disasters.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.13) Determine if non-recognition of gain rules apply to "defective" trusts treated as grantor trusts.	_____	_____	_____
219) Determine that gains on installment sales made by decedent are properly reported.	_____	_____	_____
220) Consider limitations of losses for transactions with related parties.	_____	_____	_____
221) Consider rollover of gain on the sale or exchange of small business stock held for more than six months if other qualified small business stock is bought within 60 days of the sale.	_____	_____	_____
222) Compare sources of K-1s with prior year. Review current K-1s to determine that all items have been properly reported.	_____	_____	_____
223) Consider limitations of § 465 at-risk, § 704(d) and/or § 1366(d) basis rules.	_____	_____	_____
224) If partnership interests are held, determine the following:			
.1) If a decedent was involved, determine if a § 754 election was made at partnership level.	_____	_____	_____
.2) If a basis adjustment has occurred, account for differences between "inside" and "outside" basis.	_____	_____	_____
.3) If the final year of a partnership determine that distributions listed on the K-1 were received. Account for any differences and determine proper reporting.	_____	_____	_____
225) If a distribution or technical termination has occurred in a partnership, consider both the allocation of basis rule under § 732(c), Reg. § 1.732-1(c), and making a § 732(d) election.	_____	_____	_____
226) Determine if there are any passive activities. (See Passive Activity Checklist.) (Note that activities must be grouped in accordance with Prop. Reg. § 1.469-4.)	_____	_____	_____
.1) If an estate, consider the \$25,000 special allowance exception for rental real estate.	_____	_____	_____
.2) Determine if pass-through entity in which the trust has an interest has separately reported activities.	_____	_____	_____
.3) Prepare Form 8582 for regular and AMT tax.	_____	_____	_____
227) If the taxpayer recovered amounts previously deducted, determine if the full benefit was received from prior years' deductions.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
228) Determine if the taxpayer has an S corporation, partnership, or LLC loss carryforward not previously utilized due to insufficient basis and determine if additional basis has been generated in current year to deduct all or a portion of the unused losses.	_____	_____	_____
229) Obtain copy of QSST election made by beneficiary if taxpayer is a Qualified Subchapter S Trust (QSST).	_____	_____	_____
230) If trust is an electing small business trust (§ 1361(c)(2)(A)(v)), consider special taxation rules under § 641(c).	_____	_____	_____
231) If the taxpayer is a QSST shareholder that made loans to the corporation to utilize losses, determine gain on repayment.	_____	_____	_____
232) If the estate or trust is a beneficiary of another estate or trust, determine that all items are reported in a consistent treatment. (§ 6034A)	_____	_____	_____
233) If appreciated property is used to fund a pecuniary bequest, determine that gain is recognized and that the new basis is properly reflected. Verify that information is provided to recipient.	_____	_____	_____
234) For leased vehicles and property, obtain the business and personal usages and calculate the appropriate income inclusion amount to be reported by referring to the IRS tables. See vehicle related guides.	_____	_____	_____
235) Inquire if there are worthless securities. (Note that substantial worthlessness of short sale property is a gain recognition event.)	_____	_____	_____
236) Consider ordinary income treatment for gain on sale of market discount bonds.	_____	_____	_____
237) Consider the mark-to-market rules for "dealers in securities" under § 475 and the related § 481 adjustment.	_____	_____	_____
238) Determine if there is income from discharge of indebtedness.	_____	_____	_____
.1) Consider exclusion and elections under § 108. (Reg. § 1.1017-1.)	_____	_____	_____
.2) Consider Form 982.	_____	_____	_____
239) Inquire if the taxpayer engaged in bartering transactions.	_____	_____	_____
240) Consider the proper treatment of qualified/nonqualified plan distributions.	_____	_____	_____
241) Consider § 685 election for qualified funeral trust.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
300) DEDUCTIONS			
301) For all businesses of the taxpayer:			
.1) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year-end and paid within two and one-half months after year-end).	_____	_____	_____
.2) If uniform capitalization rules apply, see Uniform Capitalization Checklist.	_____	_____	_____
.3) If long-term contract rules apply, see Long-Term Contracts Checklist.	_____	_____	_____
302) Complete Schedule C or F (Form 1040) for schedule of cost of operations and verify that beginning and ending inventory agree with books.	_____	_____	_____
303) Inquire if the trust or estate can substantiate by adequate records, as required under § 274(d), expenses claimed for entertainment, gifts and travel. Limit meals and entertainment to allowable percentage. Consider exceptions and optional per diem method.	_____	_____	_____
304) Determine the deductibility of club dues.	_____	_____	_____
305) Inquire if trade association dues include nondeductible lobbying expenses.	_____	_____	_____
306) Determine that certain lobbying expenses are not deducted. (Note exceptions.)	_____	_____	_____
307) Prepare a schedule of other deductions and determine which expenses are not subject to the 2% rule.	_____	_____	_____
308) Determine the deductible portion of administrative expenses based on the ratio of taxable to entire income.	_____	_____	_____
309) Determine if the trust or estate is entitled to an estate tax deduction for income in respect of a decedent and allocate between the beneficiaries and estate or trust. (§ 691(c))	_____	_____	_____
310) Verify distinction between nontaxable and taxable distributions from IRAs and annuities.	_____	_____	_____
311) Allocation of interest expense:			
.1) Determine that the proper allocations have been made by type (investment, passive, tax-exempt, etc.).	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) For interest on debts allocated to more than one expenditure, determine that the proper ordering of loan repayments has been considered.	_____	_____	_____
.3) Determine that the interest has been properly reallocated to the expenditure when either:			
.a) The subject of the first expenditure has been disposed of and the proceeds are used for another expenditure; or	_____	_____	_____
.b) The character of the expenditure has changed.	_____	_____	_____
312) Investment interest:			
.1) Limit the trust or estate's deduction for investment interest to net investment income.	_____	_____	_____
.2) In computing net investment income, deduct investment expenses after the application of the 2% AGI floor.	_____	_____	_____
.3) Consider the election to treat net long-term capital gains and qualified dividends as investment income subject to ordinary income tax rates.	_____	_____	_____
313) Determine that personal interest was not deducted.	_____	_____	_____
314) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
315) Other interest considerations:			
.1) Treat amortizable bond premium (for bonds acquired after 1987) as an offset to interest income.	_____	_____	_____
.2) Consider the capitalization of interest rules when the taxpayer is constructing or producing certain real or tangible personal property.	_____	_____	_____
.3) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current or former beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. (Note phase-in rules under 1996 HIPAA and additional limitations for new or materially changed contracts issued after June 8, 1997.)	_____	_____	_____
.4) Consider election to amortize bond premium on taxable bonds.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Determine if interest was paid pursuant to § 6166. Consider filing a Supplemental Form 706.	_____	_____	_____
.a) Determine for decedents dying after 1997 that no income tax deduction is allowed for interest.	_____	_____	_____
.b) Determine if executor or trustee elected before 1999 to make remaining estate tax payments under TRA 1997 procedures with a reduced interest rate.	_____	_____	_____
.c) If estate tax liability is deferred under § 6166 by borrowing funds, determine deductibility of interest on the borrowed funds. (PLR200020011)	_____	_____	_____
.6) Determine if interest was paid on a residence which is occupied by a beneficiary.	_____	_____	_____
316) Consider disallowance of double deductions, i.e., administrative expenses and losses during administration, claimed on Form 706 and attach election if claimed on Form 1041.	_____	_____	_____
317) Determine that deductions for taxes, interest, business expenses and other items accrued at the date of death are claimed on both Forms 706 and 1041 (deductions in respect of decedent).	_____	_____	_____
318) Determine that indirect expenses are allocated between taxable and tax-exempt income.	_____	_____	_____
319) Consider distribution deduction election if there are qualifying 65-day distributions from a complex trust or estate.	_____	_____	_____
320) Determine if loans, made after Sept. 19, 1995, by a foreign trust to a U.S. grantor or a U.S. beneficiary (or to a U.S. person related to the grantor or beneficiary) are treated as distributions. (Note arm's length term exception.)	_____	_____	_____
321) Compute distributable net income (DNI):			
.1) Determine that direct and indirect expenses have been properly allocated to the various classes of income (including tax-exempt and passive activities).	_____	_____	_____
.2) Ascertain if capital gains are required to be allocated to DNI.	_____	_____	_____
.3) Determine if short-term gains distributed from mutual funds are treated as ordinary income or capital gain for DNI purposes.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
322) Determine if charitable contributions are accounted for in accordance with trust instrument.	_____	_____	_____
.1) Inquire if contributions are to qualified charitable organizations.	_____	_____	_____
.2) Ascertain that charitable contributions have been properly allocated to tax-exempt income.	_____	_____	_____
.3) Complete form 1041-A, if applicable.	_____	_____	_____
.4) Determine that charitable contributions are made from gross income or accumulated gross income (not from corpus).	_____	_____	_____
.5) Inquire if adequate contemporaneous documentation was obtained for contributions of \$250 or more.	_____	_____	_____
323) Determine if the estate or trust had elected to claim a deduction for charitable contributions made in the following tax year.	_____	_____	_____
324) For a charitable remainder trust:			
.1) Determine if there is unrelated business income. (See 990-T Checklist.)	_____	_____	_____
.2) Distributions to non-charitable beneficiaries, consider:	_____	_____	_____
.a) Historical ordering rules. (Reg. § 1.664-1(d))	_____	_____	_____
.b) New ordering rules. (Prop. Reg. 1.664-1(d)(1) 11/19/03)	_____	_____	_____
.3) Complete Forms 1041-A and 5227.	_____	_____	_____
325) Inquire if the trust or estate has bad debts.	_____	_____	_____
326) Review partially worthless debts for write-off under Reg. § 1.166-3.	_____	_____	_____
327) Consider limitations on deducting expenses related to federally tax-exempt income. (Note that these expenses may be deductible at the state level if related income is taxable for state purposes.)	_____	_____	_____
328) If this is first year that the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception. (Rev. Proc. 92-28)	_____	_____	_____
329) Consider option to deduct current year qualifying disaster losses on preceding year tax return by filing an amended return.	_____	_____	_____
330) Determine amount of the distribution deduction, limited to taxable income.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
331) Determine that specific bequests are not included in distribution deduction.	_____	_____	_____
332) If a property distribution, determine that the deduction for DNI is equal to the lesser of the property's adjusted basis or fair market value, subject to taxable income limitation.	_____	_____	_____
333) Consider the § 643(e)(3) election to recognize gain or loss upon a property distribution, other than the funding of a pecuniary bequest.	_____	_____	_____
334) If trustee fees or personal representative fees are paid, inquire if deducted fees are properly documented. (Review case law, C. Grant Est., CA-2, 2002-2 USTC.)	_____	_____	_____
335) Determine if expenditures were incurred that are eligible for the disabled access credit (see Form 8826). If the taxpayer does not qualify for the credit or has expenditures in excess of the credit limit, consider making § 190 election to expense the cost.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) For assets placed in service during the current year:			
.1) Consider additional first-year depreciation allowance of:			
.a) 50% of adjusted basis of "50 percent bonus depreciation property" placed in service after May 5, 2003 or before 2005. (JGTRRA 2003)	_____	_____	_____
.b) 30% of adjusted basis for 50% bonus depreciation property placed in service after May 5, 2003, and before January 1, 2005. Note special election must be made on tax return. (JGTRRA 2003)	_____	_____	_____
.2) Determine that § 179 election to expense qualifying assets has not been made. § 179 is not applicable to trusts.	_____	_____	_____
.3) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property.	_____	_____	_____
.4) Determine the depreciable basis of each asset.	_____	_____	_____
.5) Determine the property class, recovery period and depreciation method for each asset. Note limitations on property qualifying for income forecast method and designated lives of rent-to-own property.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.7) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period.	_____	_____	_____
.8) Determine if leasehold improvements is "qualified leasehold improvement property" or restaurant property for use of 15-year recovery period for property placed in service after October 22, 2004 and before 2006. (AJCA 2004)	_____	_____	_____
.9) Note 36-month amortization rules for software.	_____	_____	_____
.10) Consider reduced depreciable lives for real estate improvements and special use structures.	_____	_____	_____
.11) Consider separate component analysis for building items. (Comm. vs. Brookshire Bros., 5 th cir; 01-60978, 1/29/03)	_____	_____	_____
.12) Consider electing the Alternative Depreciation System (straight-line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.13) Consider electing the 150% DB method over the recovery periods applicable to the regular tax for tangible personal property otherwise qualifying for the 200% DB method.	_____	_____	_____
.14) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.15) If property is leased to a tax-exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.16) Consider depreciation limitations for Industrial Development Bond (IDB) financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.17) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.18) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.19) Determine if interest is payable under look-back method where income forecast method is used. Note interest calculation change.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.20) Consider modifications to the income forecast method of depreciation for property placed in service after October 22, 2004 as it relates to "participations and residuals." (AJCA 2004)	_____	_____	_____
.21) Consider election under § 181(a)(2) to deduct cost of production in the year incurred for qualified film and television productions for costs incurred after October 22, 2004 and before January 1, 2009. (AJCA 2004)	_____	_____	_____
.22) Consider accelerated depreciation for qualifying property located on Indian reservations.	_____	_____	_____
.23) Determine if New York Liberty Zone or NYC benefits and incentives are applicable. (JCWAA 2002)	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
403) Consider the provisions of Rev. Proc. 2002-54 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____
404) Determine if leased property/equipment should be capitalized.	_____	_____	_____
405) Consider anti-churning rules.	_____	_____	_____
406) For listed property (e.g., cellular phones, business vehicles, computers, airplanes, boats):			
.1) For business vehicles, consider the maximum allowable under the luxury auto rules. Note exceptions for clean burning, electric, and vehicles with GVW of more than 6,000 lbs. and qualified non-personal use trucks and vans placed in service after July 6, 2003. (Reg. 1.280 F-6) Note first-year dollar limitations. (Rev. Proc. 2003-75, Tables 1-9)	_____	_____	_____
.2) For business vehicles purchased after October 22, 2004, consider the new expensing limitations for sports utility vehicles rated at 14,000 lbs. gross vehicle weight or less. (AJCA 2004)	_____	_____	_____
.3) For business vehicles, determine limitation if the business usage is 50% or less.	_____	_____	_____
.4) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Inquire if the individual has kept the required records indicating the business and personal use of property. Note certain travel between home and temporary work locations is considered business.	_____	_____	_____
.6) Determine recapture if the business usage has declined to 50% or less.	_____	_____	_____
.7) Consider final Reg. § 1.168(i)-4 for how to claim MACRS on property after use change.	_____	_____	_____
407) Form 4562 if required:			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete all questions regarding personal use of listed property. Also applies to standard mileage rate autos unless Form 2106 or Schedule C Part IV is used.	_____	_____	_____
.3) If costs were incurred during the current year, determine that all amortizable items are separately stated and the proper Code section cited.	_____	_____	_____
408) Consider state depreciation, if different.	_____	_____	_____
409) Consider federal and state AMT depreciation. Note depreciable lives of tangible personal property placed in service after 1998 are the same for regular and AMT purposes. Note also that the first year 30% and 50% first-year depreciation under JCWAA 2002 and JGTRRA 2003 applies for AMT purposes.	_____	_____	_____
410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____
411) Report depreciation recapture and related investment credit recapture if taxpayer converted depreciable business assets to non-business personal assets.	_____	_____	_____
500) TAX COMPUTATION AND CREDITS			
501) Compute regular tax.	_____	_____	_____
502) Consider qualified dividends and capital gains tax computations noting various rates depending on type of asset and holding period.	_____	_____	_____
503) Consider alternative tax rate attributable to S corporation items.	_____	_____	_____
504) Complete Schedule I (AMT).	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
505) Alternative minimum tax must be computed by making adjustments such as:			
.1) Depreciation on property placed in service after 1986 (or July 31, 1986 if election was made) must be computed using the alternative system. (Rev. Proc. 87-57)	_____	_____	_____
.2) Determine that the same recovery period is used for regular tax and AMT for property placed in service after 1998.	_____	_____	_____
.3) Mining, exploration research & experimental costs must be capitalized and amortized over a ten-year period.	_____	_____	_____
.4) Income from long-term contracts entered into after February 28, 1986, must be computed using the percentage of completion method of accounting. (Note exception for "home construction contracts.")	_____	_____	_____
.5) Income from post-February 28, 1986, dispositions of real or personal property held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the qualified installment sale. (Note exception for cash basis farmers.)	_____	_____	_____
.6) Use AMT net operating loss (NOL) deduction in place of the regular NOL deduction. Post-1986 AMT NOL is available only to the extent of 90% of pre-NOL AMTI.	_____	_____	_____
.7) Compute gains/losses on sales and exchanges using the AMT adjusted basis.	_____	_____	_____
.8) Adjust itemized deductions for the following AMT rules:			
.a) No deduction is allowed for miscellaneous itemized deductions subject to 2% limit or most taxes.	_____	_____	_____
.b) State tax refunds are excluded from AMTI.	_____	_____	_____
.c) Qualified housing interest is restricted.	_____	_____	_____
.9) The following preference items must be added:			
.a) Excess intangible drilling costs. Consider election to amortize over 60 months for regular tax purposes and the § 57(a)(2)(E) exclusion. (See Oil & Gas Practice Guide in this package.)	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.b) Tax-exempt interest on private activity bonds issued after August 7, 1986.	_____	_____	_____
.c) Accelerated depreciation on real and leased personal property placed in service before 1987.	_____	_____	_____
.10) Consider special rules denying certain losses for AMT purposes:			
.a) Net passive activity losses as adjusted for tax preferences. (Form 8582)	_____	_____	_____
.b) Certain farm losses.	_____	_____	_____
.c) Insolvent trusts.	_____	_____	_____
.11) Consider foreign tax credits.	_____	_____	_____
.12) Compute Distributable Net Alternative Minimum Taxable Income.	_____	_____	_____
506) Consider tax credits such as:			
.1) Enhanced oil recovery credit. (Form 8830)	_____	_____	_____
.2) Foreign tax credit.	_____	_____	_____
.3) Investment tax credit (rehabilitation, transition and carryovers). (Form 3468)	_____	_____	_____
.4) Credit for federal tax on gasoline, special fuels and lubricating oil.	_____	_____	_____
.5) Low-income housing credit. (Form 8586)	_____	_____	_____
.6) The Work Opportunity Credit for eligible employees. (Form 5884)	_____	_____	_____
.7) The credit for qualified clinical testing expenses (Orphan Drug Credit), and associated carrybacks and carryovers. (Form 8820)	_____	_____	_____
.8) Credit for employer Social Security taxes paid on certain employee cash tips. (Form 8846)	_____	_____	_____
.9) Welfare-to-work credit for eligible employees. (Form 8861)	_____	_____	_____
.10) General business credit. (Form 3800)	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.11) Disabled Access Credit. (Form 8826)	_____	_____	_____
.12) Alcohol fuel and biodiesel credit. (AJCA 2004)	_____	_____	_____
.13) Wind and other renewable resources credit. (AJCA 2004)	_____	_____	_____
507) If filing multistate returns, determine if a credit may be claimed on resident state tax return for taxes paid to other states.	_____	_____	_____
508) Determine if the trust or estate is subject to:			
.1) Investment credit recapture.	_____	_____	_____
.2) The GST as the result of the death of a beneficiary.	_____	_____	_____
.3) Foreign estate or trust treatment as a non-resident alien individual not present in the United States for computation of tax. (§ 641(b))	_____	_____	_____
509) Allocate each item to the beneficiaries' K-1s in accordance with provisions of the trust agreement or will.	_____	_____	_____
510) Determine if separate share rule applies to trust or estate. (§ 663(c))	_____	_____	_____
511) Reconcile accounting income per books with distributable net income.	_____	_____	_____
512) Confirm the amounts and dates of any federal, state and local estimated tax deposits/payments (including withholding) for the year, prior year over-payments applied, and extension payments.	_____	_____	_____
513) If withholding and estimated tax payments are less than 90% of the tax liability, consider filing Form 2210.	_____	_____	_____
514) If applicable, consider installment agreement with IRS for payment of tax. (Includes partial payment of tax liability.) (AJCA 2004)	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Consider estimated tax for the forthcoming year and set up estimated tax payments. Determine if prior year 100% or 110% rule applies. (Estates are exempt from estimated payment requirement for first two years.)	_____	_____	_____
602) Compare taxable income and tax to projections and court filings for reasonableness.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
603) If the trust or estate sold partnership interests during the year, determine:			
.1) That the appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	_____	_____
.2) The required statement under Reg. § 1.751-1(a)(3) is attached if the partnership had § 751(a) assets.	_____	_____	_____
604) If trust or estate acquired partnership interests, consider providing appropriate information to partnership under Prop. Reg. § 209682-94.	_____	_____	_____
605) Consider penalties and procedures relating to abusive tax shelters, if applicable. (AJCA 2004)	_____	_____	_____
606) If Form 8271 is required for tax shelters, attach it to Schedule K-1.	_____	_____	_____
607) Consider capitalizing carrying charges (interest, taxes, etc.) on non-productive property.	_____	_____	_____
608) Consider the election to forego a net operating loss carryback. (Note statement required for election.)	_____	_____	_____
609) If an NOL deduction is claimed, prepare supporting schedules for regular and AMT carryovers to be attached to the return.	_____	_____	_____
610) Determine that proper classification has been provided for all items on Schedule K-1.	_____	_____	_____
611) If this is a final return for the trust or estate, ascertain the deductions to be carried to the returns of the beneficiaries and prepare a schedule of assets, including adjusted basis, distributed to each beneficiary.	_____	_____	_____
612) Consider unused losses and deductions to be transferred to beneficiaries in final year.	_____	_____	_____
613) Determine that unused passive activity losses pertaining to an interest in an activity being distributed to a beneficiary are either added to the basis of the property distributed, or added to cost basis if § 643(e)(3) election is made.	_____	_____	_____
614) Determine if trust or estate payments of estimated tax should be allocated to beneficiaries and file return in appropriate time period; Form 1041-T must be filed within 65 days after year-end.	_____	_____	_____
615) Consider that throwback rules apply for foreign trusts and trusts created before March 1, 1984 that are treated as multiple trusts under § 643.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
616) Consider § 6662 accuracy-related penalty. If this penalty could result from any income, deduction, loss or credit item which causes a substantial change in the beneficiary's return and causes the preparer to rise to the level of preparer of the beneficiary's return:			
.1) Consider if substantial authority exists for the item in question. If not, consider disclosure. (Form 8275 or 8275-R)	_____	_____	_____
.2) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
617) Attach extension requests.	_____	_____	_____
618) Prepare filing instructions and transmittal letter to the trustee or executor.	_____	_____	_____
619) If the taxpayer has made an "applicable asset acquisition" (transfer of assets that constitute a trade or business), using form 8594, determine that reporting requirements regarding allocation of purchase price have been met.	_____	_____	_____
620) If there is more than one trustee or executor, attach statement required pursuant to § 6012(b)(5). ("Sufficient knowledge")	_____	_____	_____
621) Determine if related party transactions are properly reported on all available returns.	_____	_____	_____
622) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts.	_____	_____	_____
623) Information returns:			
.1) Inquire if taxpayer has complied with magnetic media filing requirements for 1099s and W-2s.	_____	_____	_____
.2) Inquire if the trust has filed all required information returns (1098 and 1099 series) and if the value of personal use portion of employer property expense reimbursements under "unaccountable plans" and § 401(k) deferred compensation information has been included in employees' W-2s.	_____	_____	_____
.3) Inquire if additional items subject to employer FICA, such as 401(k) deferrals, employer-provided excess group-term insurance, all cash tips, etc., have been properly reported.	_____	_____	_____
.4) Determine if Forms 1042 and 1042-S (Withholding Tax Information of Foreign Persons) have been filed.	_____	_____	_____
.5) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported.	_____	_____	_____

ESTATE AND TRUST INCOME TAX RETURN CHECKLIST
2004 - FORM 1041

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
624) Inquire if employment taxes were timely deposited.	_____	_____	_____
625) Determine if there has been a taxable distribution for generation-skipping tax purposes and consider preparation of Forms 706-GS(D-1), 706-GS(T) and 706-GS(D).	_____	_____	_____
626) Consider filing Form 3520 if the trust received gifts or bequests from foreign sources valued more than \$100,000 during the tax year.	_____	_____	_____
627) Consider informing taxpayer of requirement to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____
628) If the entity is a beneficiary of another estate or trust, consider the inconsistent treatment notice if the distributing estate or trust files no tax return. (§ 6034A)	_____	_____	_____
629) Consider distributing to the beneficiary a reconciliation, if applicable, of the difference between taxable income reported to the beneficiary and the income actually distributed.	_____	_____	_____
630) Attach tax shelter disclosure statement under Reg. § 1.6011-4 if trust participates, directly or indirectly, in listed transactions.	_____	_____	_____
631) Note tax planning/additional service suggestions.	_____	_____	_____

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST
PARTNERSHIP RETURN OF INCOME
2004 - FORM 1065

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION			INCOME		
1. Review and update the partnership's and partners' information including names, address and business code.	<input type="checkbox"/>	<input type="checkbox"/>	1. Compare sources of portfolio income with prior year.	<input type="checkbox"/>	<input type="checkbox"/>
2. Review prior year returns, workpapers, correspondence, audit results and amendments to the partnership agreement.	<input type="checkbox"/>	<input type="checkbox"/>	2. Include only trade or business income on page 1, Form 1065.	<input type="checkbox"/>	<input type="checkbox"/>
3. Consider obtaining signed engagement letter/privilege engagement letter.	<input type="checkbox"/>	<input type="checkbox"/>	3. Calculate gains, losses and recaptures on dispositions of property.	<input type="checkbox"/>	<input type="checkbox"/>
4. Determine if the partnership is a limited partnership.	<input type="checkbox"/>	<input type="checkbox"/>	4. Consider the following:		
5. Determine if a Limited Liability Company (See LLE Checklist.)	<input type="checkbox"/>	<input type="checkbox"/>	Installment sales and related interest charge on deferred tax (See Installment Sales Checklist)	<input type="checkbox"/>	<input type="checkbox"/>
6. Determine state and local tax returns and report filing requirements and necessary partner information.	<input type="checkbox"/>	<input type="checkbox"/>	Timing differences	<input type="checkbox"/>	<input type="checkbox"/>
7. Review pro forma/organizer for accuracy.	<input type="checkbox"/>	<input type="checkbox"/>	Wash sales	<input type="checkbox"/>	<input type="checkbox"/>
8. Determine if the partnership agreement complies with the 704(b) regulations. (See § 704(b) tax practice guide.)	<input type="checkbox"/>	<input type="checkbox"/>	Ordinary income on market discount bonds and deferral of related interest expense	<input type="checkbox"/>	<input type="checkbox"/>
9. Consider below-market-rate loan rules.	<input type="checkbox"/>	<input type="checkbox"/>	Sales or exchanges with a partner	<input type="checkbox"/>	<input type="checkbox"/>
10. Determine if there has been a technical termination of the partnership.	<input type="checkbox"/>	<input type="checkbox"/>	Worthless securities	<input type="checkbox"/>	<input type="checkbox"/>
11. Determine if the partnership is on the required year end.	<input type="checkbox"/>	<input type="checkbox"/>	Like-kind exchanges	<input type="checkbox"/>	<input type="checkbox"/>
12. Determine if the partnership is an "electing large partnership."	<input type="checkbox"/>	<input type="checkbox"/>	Advance payments (Rev. Proc. 71-21 and Rev. Proc. 2004-34)	<input type="checkbox"/>	<input type="checkbox"/>
13. Determine if the partnership is required to file by magnetic media.	<input type="checkbox"/>	<input type="checkbox"/>	DEDUCTIONS		
14. Determine if there were partnership ownership changes. Consider § 754 election. Consider Form 8308.	<input type="checkbox"/>	<input type="checkbox"/>	1. Consider the uniform capitalization rules. (See Uniform Capitalization Checklist)	<input type="checkbox"/>	<input type="checkbox"/>
15. Determine if § 704(c) regulations have been applied to contributions by a partner.	<input type="checkbox"/>	<input type="checkbox"/>	2. Determine if Form 8283 is required for non-cash charitable contributions. Note increased reporting requirements for certain noncash donations (AJCA 2004).	<input type="checkbox"/>	<input type="checkbox"/>
16. Provide UBTI data to tax-exempt partners.	<input type="checkbox"/>	<input type="checkbox"/>	3. Determine if there were guaranteed payments to partners.	<input type="checkbox"/>	<input type="checkbox"/>
17. Review financial statements and footnotes for relevant information.	<input type="checkbox"/>	<input type="checkbox"/>	4. Inquire if travel and entertainment expenses are substantiated by adequate records. (Rev. Proc. 2003-80)	<input type="checkbox"/>	<input type="checkbox"/>
18. Consider debt discharge and the exceptions to recognition.	<input type="checkbox"/>	<input type="checkbox"/>	5. Consider limitations on deductibility of:		
19. Consider filing power of attorney in addition to "check-box" option.	<input type="checkbox"/>	<input type="checkbox"/>	Club dues	<input type="checkbox"/>	<input type="checkbox"/>
20. Consider disaster relief provisions.	<input type="checkbox"/>	<input type="checkbox"/>	Lobbying expenses/association dues	<input type="checkbox"/>	<input type="checkbox"/>
			6. Limit meals and entertainment to allowable percentage.	<input type="checkbox"/>	<input type="checkbox"/>
			7. Allocate interest expense among expenditures and/or distributions.	<input type="checkbox"/>	<input type="checkbox"/>
			8. Review amount and timeliness of retirement plan contributions.	<input type="checkbox"/>	<input type="checkbox"/>
			9. Determine if specific charge-off method is used for bad debts.	<input type="checkbox"/>	<input type="checkbox"/>
			10. Determine applicability of 2½ -month deferred comp. rule for nonpartner employees and independent contractors.	<input type="checkbox"/>	<input type="checkbox"/>

MINI-CHECKLIST
PARTNERSHIP RETURN OF INCOME
2004 - FORM 1065

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
DEPRECIATION/AMORTIZATION			OTHER REQUIREMENTS		
1. Consider the following:			1. Consider tax credits.	<input type="checkbox"/>	<input type="checkbox"/>
50% bonus depreciation (JGTRRA 2003)	<input type="checkbox"/>	<input type="checkbox"/>	2. Compute net earnings from self-employment.	<input type="checkbox"/>	<input type="checkbox"/>
30% additional first-year depreciation election for			3. Consider such elections and statements as:		
50% bonus depreciation property (JGTRRA	<input type="checkbox"/>	<input type="checkbox"/>	Amortize organization expense	<input type="checkbox"/>	<input type="checkbox"/>
2003)			Cash vs. accrual accounting method	<input type="checkbox"/>	<input type="checkbox"/>
Election out of bonus depreciation	<input type="checkbox"/>	<input type="checkbox"/>	Expense intangible drilling costs	<input type="checkbox"/>	<input type="checkbox"/>
§ 179 election	<input type="checkbox"/>	<input type="checkbox"/>	Amortize business startup costs	<input type="checkbox"/>	<input type="checkbox"/>
Methods and lives	<input type="checkbox"/>	<input type="checkbox"/>	Method for valuation of inventory	<input type="checkbox"/>	<input type="checkbox"/>
Listed property	<input type="checkbox"/>	<input type="checkbox"/>	Change in accounting method application/ approval	<input type="checkbox"/>	<input type="checkbox"/>
Amortization of goodwill and other intangibles	<input type="checkbox"/>	<input type="checkbox"/>	Research and experimental costs	<input type="checkbox"/>	<input type="checkbox"/>
Qualified leasehold improvement property (AJCA	<input type="checkbox"/>	<input type="checkbox"/>	Exception from economic performance for		
2004)			recurring items (first year only)	<input type="checkbox"/>	<input type="checkbox"/>
Capitalization of leased property	<input type="checkbox"/>	<input type="checkbox"/>	Ratable accrual of real property taxes (first year		
			only)	<input type="checkbox"/>	<input type="checkbox"/>
2. Compute AMT and ACE depreciation.	<input type="checkbox"/>	<input type="checkbox"/>	Step-up in basis and mandatory basis adjustments	<input type="checkbox"/>	<input type="checkbox"/>
3. Compute state depreciation if different	<input type="checkbox"/>	<input type="checkbox"/>	Treatment as a large partnership	<input type="checkbox"/>	<input type="checkbox"/>
PARTNER DATA - SCHEDULE K-1					
1. Verify correctness of partner name, address and			4. Determine if the partnership was a party to		
identification number.	<input type="checkbox"/>	<input type="checkbox"/>	“applicable asset acquisition” (Form 8594).	<input type="checkbox"/>	<input type="checkbox"/>
2. Complete the analysis of distributive items at the			5. Inquire if all information returns filed.	<input type="checkbox"/>	<input type="checkbox"/>
bottom of Schedule K.	<input type="checkbox"/>	<input type="checkbox"/>	6. Consider § 6662 accuracy-related penalty.	<input type="checkbox"/>	<input type="checkbox"/>
3. Consider the at-risk rules.	<input type="checkbox"/>	<input type="checkbox"/>	7. Determine if there was any § 751 gain (unrealized		
4. Report pre-1987 installment sale as passive. (See	<input type="checkbox"/>	<input type="checkbox"/>	receivables) to existing partners due to admission of	<input type="checkbox"/>	<input type="checkbox"/>
Passive Activity Checklist.)			new partners.		
5. Reconcile partners capital per Schedule L to	<input type="checkbox"/>	<input type="checkbox"/>	8. Compare net income or loss to projections.	<input type="checkbox"/>	<input type="checkbox"/>
Schedule M-2.			9. Attach extension requests.	<input type="checkbox"/>	<input type="checkbox"/>
6. Complete each partner’s reconciliation of capital.	<input type="checkbox"/>	<input type="checkbox"/>	10. Note tax planning/additional service suggestions.	<input type="checkbox"/>	<input type="checkbox"/>
7. Allocate partner debt pursuant to § 752.	<input type="checkbox"/>	<input type="checkbox"/>			
8. Ensure the partnership and K-1s report results on	<input type="checkbox"/>	<input type="checkbox"/>			
an activity by activity basis.					
9. Allocate each item on Schedule K to the partners					
per the partnership agreement and § 704(b).	<input type="checkbox"/>	<input type="checkbox"/>			
(See § 704(b) tax practice guide.)					
10. Allocate losses to deceased partners pursuant to	<input type="checkbox"/>	<input type="checkbox"/>			
§ 706.					
11. Provide information for all items that affect	<input type="checkbox"/>	<input type="checkbox"/>			
partner’s tax liability.					
12. Include tax shelter registration number.	<input type="checkbox"/>	<input type="checkbox"/>			

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
2004—FORM 1065

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider obtaining signed:	_____	_____	_____
.1) Engagement letter.	_____	_____	_____
.2) Privilege engagement letter.	_____	_____	_____
.3) Consider filing power of attorney in addition to “check-box” option.	_____	_____	_____
102) Review and update the partnership’s and partners’ names, addresses, fiscal year, business code, identification number, date business started, and IRS and other tax filing addresses.	_____	_____	_____
103) Identify the name, address and identifying number of the Tax Matters Partner.	_____	_____	_____
104) Review permanent file, prior year returns, workpapers and correspondence files.	_____	_____	_____
105) Verify that a copy of the partnership agreement and all amendments are in the permanent file.	_____	_____	_____
106) Obtain information concerning IRS, state tax audits and/or correspondence.	_____	_____	_____
107) If the taxpayer is an LLC, document the status as a partnership. (See LLE Checklist.)	_____	_____	_____
108) Determine if the partnership is a limited partnership.	_____	_____	_____
109) Review proforma/organizer for accuracy.	_____	_____	_____
110) If the partnership has a passive activity, note that the activity definitions in the regulations apply to partnerships (see Passive Activity Checklist).	_____	_____	_____
111) Determine that the partnership agreement complies with the § 704 regulations. (See § 704(b) Tax Practice Guide.)	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
2004—FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
112) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required.	_____	_____	_____
113) If the partnership is using an improper accounting method, consider filing an application for a change in accounting method.	_____	_____	_____
114) Consider economic performance requirements and recurring item exception.	_____	_____	_____
115) Inquire whether the partnership has made or received any below-market-rate term or demand loans. If so, determine imputed interest consequences.	_____	_____	_____
116) Review for adequate stated interest on all new or modified debt instruments.	_____	_____	_____
117) Determine if there has been any change in the partnership's ownership and/or a technical termination during the year. If there was a technical termination, consider the need for a short period return.	_____	_____	_____
118) If there were any sales or exchanges of partnership interests or partner deaths during the current year, consider whether a § 754 election has been or should be made.	_____	_____	_____
119) Determine if § 704(c) regulations have been applied to contributions by partners.	_____	_____	_____
120) Consider the consequences if the partnership has a year other than that which is "required."	_____	_____	_____
121) Determine if the partnership is an "electing large partnership". If so:			
.1) Schedules K-1 must be furnished to all partners by March 15.	_____	_____	_____
.2) Simplified reporting rules will apply.	_____	_____	_____
122) Determine if the partnership has more than 100 partners. If so, the partnership return, including K-1s, must be filed with the IRS by magnetic media unless a waiver has been obtained pursuant to Announcement 2002-3.	_____	_____	_____
123) Determine if the partnership had any discharge of indebtedness income. If so, consider the exceptions to recognition.	_____	_____	_____
124) Provide UBTI information to tax-exempt partners.	_____	_____	_____
125) Review financial statements and footnotes for relevant information.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
2004—FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
126) Consider availability of tax credits.	_____	_____	_____
127) Consider disaster relief provisions.	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_____
202) Determine that only trade or business (e.g., not portfolio or rental) income is reported on Page 1 of Form 1065.	_____	_____	_____
203) Review dispositions of property for holding period and federal, state, AMT and ACE tax bases, non-recognition and recaptures.	_____	_____	_____
204) Consider the following:			
.1) Installment sales and related interest charge on deferred tax. (See Installment Sales Checklist.)	_____	_____	_____
.2) Timing differences.	_____	_____	_____
.3) Wash sales.	_____	_____	_____
.4) Sales or exchanges between the partnership and a partner, or a related party.	_____	_____	_____
.5) Income inclusion for leased vehicles. (See Vehicle Related Guide.)	_____	_____	_____
.6) Worthless securities.	_____	_____	_____
.7) Like-kind exchanges.	_____	_____	_____
.8) Rules for involuntary conversions, including post-1994 Presidentially declared disasters.	_____	_____	_____
.9) Gains on constructive sales of appreciated financial positions.	_____	_____	_____
205) Consider mark-to-market rules for “dealers in securities” under § 475 and the related § 481 adjustment.	_____	_____	_____
206) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
207) Determine the proper treatment of certain advance payments for tax purposes. (Rev. Proc. 71-21 and Rev. Proc. 2004-34)	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
2004—FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
300) DEDUCTIONS			
301) Consider the uniform capitalization rules. (See Uniform Capitalization Checklist.)	_____	_____	_____
302) Inquire if adequate contemporaneous documentation was obtained for charitable contributions of \$250 or more.	_____	_____	_____
303) If noncash charitable contributions exceed \$500, attach Form 8283. Note: Certain noncash donations exceeding \$500,000 in value now require the partnership to attach a qualified appraisal to its tax return for the year of the donation (AJCA 2004).	_____	_____	_____
304) Determine that all guaranteed payments have been deducted in computing ordinary income or have been capitalized as required.	_____	_____	_____
305) Inquire whether the partnership can substantiate by adequate records, as required under IRC § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel, conventions. Consider optional per diem method. (See Rev. Proc. 2003-80; see also, Rev. Proc. 2004-29, regarding the ability to use statistical sampling for meals and entertainment expenses that are not subject to the 50% limitation.)	_____	_____	_____
306) Consider limitations on deductibility of:			
.1) Club dues	_____	_____	_____
.2) Lobbying expenses/association dues.	_____	_____	_____
307) Limit meals and entertainment to allowable percentage. Consider exceptions, including employer-provided meals. Note new rule that limits the deduction for entertainment etc., provided to officers, directors, and 10%-or-more owners to amount included in the recipient's compensation (AJCA 2004).	_____	_____	_____
308) Verify that the proper allocations have been made dividing interest expense among expenditures and/or distributions.	_____	_____	_____
309) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
310) Determine that retirement plan contributions are made timely and within allowable limits.	_____	_____	_____
311) Determine that the partnership has not deducted interest or expenses accrued to a partner or a related party unless it is includible in the income of the partner or related party.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
2004—FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
312) Determine that expenses (including interest) allocable to portfolio income have not been deducted on Page 1, Form 1065.	_____	_____	_____
313) Determine that the specific write-off method is used for bad debts.	_____	_____	_____
314) Determine applicability of 2½-month deferred compensation rule for nonmember- employees and independent contractors.	_____	_____	_____
315) Consider capitalization of carrying charges on non-productive property.	_____	_____	_____
316) Determine the proper treatment for costs incurred to acquire or create intangible assets, including prepaid expenses. (See Rev. Proc. 2004-23 and final Reg. §§ 1.263(a)-4, 1.263(a)-5, and 1.167(a)-3(b), T.D. 9107.)	_____	_____	_____
317) Determine the proper treatment for partner unreimbursed expenses. (See <i>M.T. Hines</i> , T.C. Summary Opinion 2004-55.)	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) 50% of adjusted basis of "50-percent bonus depreciation property" placed in service after May 5, 2003, and before January 1, 2005. (JGTRRA 2003)	_____	_____	_____
.2) 30% additional first-year depreciation for 50-percent bonus depreciation property. (Note: Special election must be made on the tax return.) (JGTRRA 2003)	_____	_____	_____
.3) Election out of bonus depreciation.	_____	_____	_____
.4) § 179 election, including "off-the-shelf" software (JGTRAA 2003).	_____	_____	_____
.5) 36-month depreciation rules for software.	_____	_____	_____
.6) Methods and lives.	_____	_____	_____
.7) Determine if leased property should be capitalized.	_____	_____	_____
.8) Determine if qualified leasehold improvement property or restaurant property for use of 15-year recovery period for property placed in service after October 22, 2004 and before 2006. (AJCA 2004)	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
2004—FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.9) Limitations related to listed property. (Note exceptions for vehicles with GVW of more than 6,000 lbs. and qualified non-personal use trucks and vans placed in service after July 6, 2003. (Reg. § 1.280F-6(c)(3)(iii) and see Rev. Proc. 2004-20.) Note: State rules may differ from the federal.	_____	_____	_____
.10) For business vehicles purchased after October 22, 2004, consider the new §179 expensing limitations for sport utility vehicles rated at 14,000 lbs. gross vehicle weight or less. (AJCA 2004)	_____	_____	_____
.11) Depreciation of property received in a like-kind exchange or involuntary conversion. (Reg. § 1.168(i)-6T for transactions occurring after February 27, 2004, or Notice 2000-4 for transactions occurring prior to this date.)	_____	_____	_____
.12) Consider reduced depreciable lives for real estate improvements and special use structures.	_____	_____	_____
.13) Cost segregation analysis of building. (<i>Hospital Corporation of America v. Commissioner</i> , 109 TC 21 (1997) and <i>Brookshire Brothers</i> , 320 F.3d 507 (5 th Cir. 2003).)	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
403) Consider AMT and ACE depreciation.	_____	_____	_____
404) Compute state depreciation if different.	_____	_____	_____
500) PARTNER DATA - SCHEDULE K-1			
501) Verify correctness of partner name, address and identification number.	_____	_____	_____
502) Complete the analysis of distributive items at the bottom of Schedule K.	_____	_____	_____
503) Consider the at-risk rules.	_____	_____	_____
504) Consider whether income from a pre-1987 installment sale should be considered passive income.	_____	_____	_____
505) Verify that the beginning and ending total partners' capital accounts on Schedule L agree with the reconciliation of partners' capital accounts—Schedule M-2.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
2004—FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
506) Complete each partner's reconciliation of capital. Make sure each column total agrees to the corresponding line on Schedule M-2.	_____	_____	_____
507) Determine the allocation of the partnership's recourse, nonrecourse and qualified nonrecourse liabilities pursuant to § 752 and enter separately on each partner's Schedule K-1.	_____	_____	_____
508) Ensure that the partnership and Schedules K-1 report results on an activity-by-activity basis.	_____	_____	_____
509) Distribute each item on Schedule K among the Schedule K-1s in accordance with provisions of the partnership agreement, or alternatively, in accordance with § 704(b) if the partnership agreement is silent on § 704(b). (See § 704(b) Tax Practice Guide.)	_____	_____	_____
510) Determine that allocations for deceased partners are consistent with § 706. Note that a partnership's taxable year now closes with respect to a deceased partner.	_____	_____	_____
511) Determine whether the partnership was required to register as a tax shelter. Place the registration number on each Schedule K-1.	_____	_____	_____
512) Determine that proper reporting has been provided for all items on Schedule K-1 that affect partners' tax liability. (JGTRRA 2003)	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Compare net income or loss to projections.	_____	_____	_____
602) Compute net earnings from self-employment.	_____	_____	_____
603) Consider elections and statements such as:			
.1) Amortization of organization expenses. Note new rules for amortization of organization expenses (AJCA 2004).	_____	_____	_____
.2) Cash vs. accrual method of accounting.	_____	_____	_____
.3) Election to expense intangible drilling costs.	_____	_____	_____
.4) Amortization of business start-up costs. Note new rules for amortization of start-up costs (AJCA 2004).	_____	_____	_____
.5) Method of valuation of inventory.	_____	_____	_____
.6) Change in accounting method application/approval.	_____	_____	_____
.7) Research and experimental costs.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
2004—FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.8) Exception from economic performance for recurring items (first year only).	_____	_____	_____
.9) Ratable accrual of real property taxes (first year only).	_____	_____	_____
.10) Election to be treated as a partnership.	_____	_____	_____
.11) Election to step up basis. (§ 754) Note new mandatory basis adjustment requirements for substantial built-in losses (AJCA 2004).	_____	_____	_____
.12) Election to be treated as a large partnership.	_____	_____	_____
604) If the partnership is a party to an applicable asset acquisition, determine that the reporting requirements have been met (Form 8594).	_____	_____	_____
605) Consider risk of § 6662 accuracy-related penalty.	_____	_____	_____
606) If a partnership interest was sold during the year, attach Form 8308 (if required), and send a copy to the transferor and transferee.	_____	_____	_____
607) If a new partner was admitted, determine if existing partners realized ordinary income due to a reduction in their share of unrealized receivables.	_____	_____	_____
608) Review prior year's return Schedule M-1 for items that may have an effect upon or require similar treatment in the current year.	_____	_____	_____
609) Reconcile income and expenses per books with return.	_____	_____	_____
610) Prepare state and local tax returns. (See Nexus Guide.) Furnish necessary information to partners.	_____	_____	_____
611) Attach extension requests.	_____	_____	_____
612) Determine that related party transactions are properly reported on all available returns.	_____	_____	_____
613) Inquire if Forms 1098 & 1099 have been filed.	_____	_____	_____
614) Inquire if employment taxes were timely deposited. (EFTPS)	_____	_____	_____
615) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing partnership circumstances and law changes.	_____	_____	_____

SHORT VERSION
PARTNERSHIP RETURN OF INCOME CHECKLIST
2004—FORM 1065

616) Advise the client that any unpaid retirement plan contribution for the year must be made before the due date of the return, including extensions. (Note: Contribution to defined benefit plans may have an earlier due date.)

617) Note tax planning/additional service suggestions. (See Client Review for Additional Services Form.)

618) Determine whether the partnership has a reportable transaction that is required to be disclosed on Form 8886.

COMMENTS OR EXPLANATIONS

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider obtaining signed:			
.1) Engagement letter.	_____	_____	_____
.2) Engagement letter for tax advice under the CPA-client privilege provisions of § 7525.	_____	_____	_____
.3) Power of attorney in addition to "check box" option.	_____	_____	_____
102) Review and update the partnership's and partners' names, addresses, fiscal year, business code, identification number, date business started and IRS and other tax processing centers. Note changes.	_____	_____	_____
103) Identify the name, address and identifying number of the Tax Matters Partner if the partnership is subject to the consolidated audit procedures of §§ 6221-6233.	_____	_____	_____
104) Review permanent file, prior year returns, memos, workpapers, and correspondence files.	_____	_____	_____
105) Verify that a copy of the partnership agreement and all amendments are in the permanent file or document in the permanent file why this is thought to be a partnership for federal and state income tax purposes.	_____	_____	_____
.1) Consider "check-the-box" election under Reg. § 301.7701-1.	_____	_____	_____
.2) Note the regulation covering the requirements to file foreign partnership returns. (Reg. § 1.6031(a)-1.)	_____	_____	_____
106) If the taxpayer is a limited liability company, obtain a copy of the operating agreement and document the status as a partnership (see LLE Checklist).	_____	_____	_____
107) Determine if the partnership is a family partnership (§ 704(e)).	_____	_____	_____
108) Review pro forma/organizer for accuracy.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
109) Prepare state and local tax returns (see Nexus Practice Guide). Consider:	_____	_____	_____
.1) Each state's modification requirements, including ability to deduct expenses allocated to federally tax-exempt income. Note that not all states allow the new 30% bonus depreciation, 50% bonus depreciation, or increased limits on § 179 expense.	_____	_____	_____
.2) State withholding requirements on income allocated to nonresident partners or distributions made to nonresident partners. Consider notification to the partners that they may be able to use this state tax liability as a credit against their individual state liability.	_____	_____	_____
.3) Desirability of filing a composite return on behalf of all nonresident partners.	_____	_____	_____
.4) State filing requirements for foreign (out-of-state) partnerships with resident partners.	_____	_____	_____
.5) State filing requirements if the entity is an LLC. (See LLE Checklist.)	_____	_____	_____
.6) Providing proper information to allow partners to prepare the necessary state tax returns.	_____	_____	_____
.7) Compiling apportionment data for multistate taxpayers.	_____	_____	_____
.8) Consider whether there are non-business income and deduction items subject to direct allocation.	_____	_____	_____
110) If the partnership has been examined by the IRS, state or local taxing authority:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine if the agent's adjustments, including amended returns filed based on agent's adjustments, have been entered in the partnership's records and appropriate carryforward workpapers.	_____	_____	_____
.3) If the agent's adjustments affect income tax returns of years other than those audited or the corresponding federal and state returns for the same year, consider filing amended returns.	_____	_____	_____
.4) Inquire whether the Tax Matters Partner has informed the partners of an examination by the IRS or state agency.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
111) Obtain copies of correspondence with the IRS or state taxing authority. Consider impact.	_____	_____	_____
112) Determine if the partnership is a limited partnership.	_____	_____	_____
113) Review and update schedules for federal and state carryover items, such as:			
.1) Prior year deferred deductions.	_____	_____	_____
.2) Installment sales. Consider applicable tax rates for components of gain.	_____	_____	_____
.3) Changes in accounting methods requiring § 481 adjustments.	_____	_____	_____
.4) Suspended losses due to at-risk limitations.	_____	_____	_____
.5) Partnership inside (assets) and outside (interests) basis.	_____	_____	_____
114) Determine if there were passive activities. (See Passive Activity Checklist.)	_____	_____	_____
115) Determine whether any related state has adopted revisions to their partnership act or amended other related laws since previous year.	_____	_____	_____
116) Determine if the partnership agreement complies with the § 704 regulations. (See § 704(b) Tax Practice Guide.)	_____	_____	_____
.1) If there is nonrecourse debt:			
(a) Consider that if the safe harbor provisions in Reg. § 1.704-2(e) are met, the allocations of deductions attributable to nonrecourse debt will be deemed to be in accordance with the partner's interest in the partnership.	_____	_____	_____
(b) Determine whether a minimum gain calculation may be necessary in order to ensure proper allocation of deductions attributable to the nonrecourse debt.	_____	_____	_____
.2) Determine if there were any partner or related party loans or guarantees. If so, consider requirement to specially allocate losses to that partner. (Reg. § 1.704-2(i))	_____	_____	_____
117) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required. (See instructions to Form 3115 and current-year's revenue procedures for a list of approved automatic changes.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
118) Consider economic performance requirement and recurring item exception.	_____	_____	_____
119) If the partnership is on the cash basis, determine if the accrual basis is required.	_____	_____	_____
120) If the partnership is on the accrual method, consider change to cash method. Note that this area has been subject to recent IRS modifications.	_____	_____	_____
121) Inquire whether the partnership has made or received below-market-rate term or demand loans. Determine imputed interest consequences.	_____	_____	_____
122) Review for adequate stated interest on all new or modified debt instruments:			
.1) Determine whether Original Issue Discount (OID) or the unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.2) Consider election for purchased discount rule under § 1278.	_____	_____	_____
123) Review for proper reporting of interest recognition in accordance with Regs. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments.	_____	_____	_____
124) Determine if there has been a change in the partnership's ownership and/or a technical termination during the year. Note that "electing large partnerships" do not terminate as result of a transfer of 50% or more of the partnership interests. Determine whether a transfer of partnership interests qualifies as a "sale or exchange."	_____	_____	_____
125) If a technical termination of the partnership occurred, consider the effect on partnership elections, the basis of partnership property, depreciation methods, potential credit recapture, ability to deduct unamortized costs and the need to file short period returns (§ 708).	_____	_____	_____
126) If there has been a distribution of partnership property, determine whether § 737 (re: distributions to a contributing partner) requires any partner to recognize gain. If so, the partnership's adjusted basis in the contributed property is adjusted accordingly.	_____	_____	_____
127) If the partnership distributed marketable securities, determine whether the partnership is required to recognize gain or loss under § 731.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
128) If there were any sales or exchanges of partnership interests, partner deaths, or partnership distributions during the current year, determine if a § 754 election has been or should be made (or has been revoked). If so, attach required information if a current year election is being made. If made, an adjustment to the basis of partnership property is mandatory. (Note: Effective for transactions occurring after October 22, 2004, basis adjustments are mandatory if the transfer involves a substantial built-in loss (AJCA 2004),	_____	_____	_____
.1) Note final regulations under Reg. §§ 1.755-1 and 1.1060-1 covering how basis adjustments are to be allocated.	_____	_____	_____
.2) Consider reporting of adjustments for §§ 734 and 743 basis adjustments.	_____	_____	_____
.3) Revise depreciation computations to account for any § 734 or § 743 adjustments.	_____	_____	_____
.4) Note that if the partnership is a partner in another partnership, a § 754 election is necessary at both tiers.	_____	_____	_____
129) Determine whether property has been contributed by a partner after March 31, 1984, and if so, that <u>all</u> items of income, gain, loss and deductions are shared among the partners to take into account the variation between the basis of the property to the partnership and its value.	_____	_____	_____
130) If the partnership has selected an allowable fiscal tax year other than the "required year," determine that Form 8716 has been timely filed and that "required payments" (Form 8752) have been made. Note that a copy of Form 8716 must be attached to Form 1065 for the first taxable year for which the election is made.	_____	_____	_____
131) Consider whether changes in partners' taxable years modify the partnership's "required year." Consider the need for short period returns.	_____	_____	_____
132) If the return is for a short-year, review the related requirements and note the due date.	_____	_____	_____
133) Determine if the partnership is a publicly traded partnership. If it is a pre-1987 publicly traded partnership, determine whether an election to continue status as a partnership was made. (Notice 98-3)	_____	_____	_____
134) Determine if the partnership has more than 100 partners. If so, the partnership return, including K-1s, must be filed with the IRS by magnetic media unless a waiver has been obtained pursuant to Announcement 2002-3.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
135) A qualifying partnership with 100 or more partners may elect to be treated as an "electing large partnership."	_____	_____	_____
136) Consider simplified reporting for an electing large partnership.	_____	_____	_____
.1) Taxable income is generally computed in the same manner as that of an individual, with certain modifications (such as miscellaneous itemized deductions). In addition, the following items are separately stated:	_____	_____	_____
(a) taxable income or loss from passive activities	_____	_____	_____
(b) taxable income or loss from other activities (e.g., portfolio income or loss)	_____	_____	_____
(c) net capital gain or loss allocable to passive loss limitation activities	_____	_____	_____
(d) net capital gain or loss allocable to other partnership activities	_____	_____	_____
(e) tax-exempt interest	_____	_____	_____
(f) net alternative minimum tax adjustment, separately computed for passive loss limitation activities and other activities	_____	_____	_____
(g) general credits	_____	_____	_____
(h) low-income housing tax credit	_____	_____	_____
(i) rehabilitation credit	_____	_____	_____
(j) foreign income taxes	_____	_____	_____
(k) discharge of indebtedness income	_____	_____	_____
(l) other items the Secretary of the Treasury has deemed necessary.	_____	_____	_____
.2) Limited partners treat all passive activities undertaken by an electing large partnership as a single activity.	_____	_____	_____
.3) Credit recapture is computed at the partnership level.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Oil and gas partnerships compute depletion at the partnership level. Certain partners are treated as "disqualified persons" and special reporting rules apply.	_____	_____	_____
.5) K-1s must be furnished to all partners by March 15.	_____	_____	_____
137) Determine if the partnership has restructured debt.			
.1) Review for possible discharge of indebtedness income.	_____	_____	_____
(a) Determine if there has been a "significant modification" (Reg. § 1.1001-1(a)) of the old debt which would constitute a taxable exchange of old debt for new debt. (See also, <i>Cottage Savings Ass'n v. Commissioner</i> , 111 S. Ct. 1503 (1991) and final Reg. § 1.1001-3.)	_____	_____	_____
(b) If there has been a "significant modification," review the OID rules to calculate possible discharge of indebtedness income. Compare the issue price of the old debt to that of the new debt (after taking into account any adjustment to principal (if needed) due to the new debt's failure to meet the Applicable Federal Rate (AFR) for interest). Note regulations under § 1274.	_____	_____	_____
(c) Note that effective for debt cancellations occurring on or after October 22, 2004, a partnership must use the fair market value of a capital or profits interest transferred to a creditor in satisfaction of a debt to determine its discharge of debt income. (AJCA 2004)	_____	_____	_____
.2) If the partnership has discharge of indebtedness income, consider the possible exceptions to inclusion in income, including:			
(a) § 108(a). Note that these tests are made at the partner level, not at the partnership level (§ 108(d)(6)).	_____	_____	_____
.i) If the exclusion is applicable consider the tax attribute reduction rules in § 108(b) and providing partners with information to complete Form 982.	_____	_____	_____
.ii) Consider advising the partners of an ability to make a § 1017 election to reduce the basis of assets held by the partners. Note that this could require a step down in the tax basis of the depreciable assets of the partnership. (Form 982)	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(b) Qualified real property business indebtedness. (§ 108(c)) Note: This does not apply to C corporation partners.	_____	_____	_____
(c) Purchase money debt. (§ 108(e)(5)) Note that the IRS has waived the bankruptcy or insolvency restrictions on the use of § 108(e)(5) by partnerships (Rev. Proc. 92-92).	_____	_____	_____
(d) If the debt is nonrecourse, consider the possible application of the “freeing of assets” theory.	_____	_____	_____
.3) Determine if the new debt is qualified nonrecourse indebtedness.	_____	_____	_____
.4) Consider election to treat a nonmaterial modification of debt as new debt (Rev. Procs. 99-18, 2000-29 and 2001-21).	_____	_____	_____
138) Determine the reporting requirements if the partnership has any tax- exempt partners. (§ 6031(d))	_____	_____	_____
139) Review financial statements and footnotes for relevant information.	_____	_____	_____
140) Determine if the partnership is eligible for tax credits, such as:			
.1) Foreign tax credit.	_____	_____	_____
.2) Investment tax credit (rehabilitation, energy and reforestation). (Form 3468)	_____	_____	_____
.3) Credit for increasing research activities (through June 30, 2004). (Form 6765)	_____	_____	_____
.4) Enhanced oil recovery credit. (Form 8830)	_____	_____	_____
.5) Credit for federal tax paid on fuels. (Form 4136)	_____	_____	_____
.6) Low-income housing credit. (Form 8586)	_____	_____	_____
.7) Disabled access credit. (Form 8826)	_____	_____	_____
.8) Qualified electric vehicle credit. (Form 8834)	_____	_____	_____
.9) Renewable electricity production credit (AJCA 2004). (Form 8835)	_____	_____	_____
.10) Credit for employer social security and Medicare taxes paid on certain employee tips. (Form 8846)	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.11) Indian employment credit. (Form 8845)	_____	_____	_____
.12) Credit for contributions to selected community development corporations. (Form 8847)	_____	_____	_____
.13) Credit for alcohol used as a fuel (AJCA 2004). (Form 6478)	_____	_____	_____
.14) New biodiesel fuel credit (AJCA 2004). (Form 8864)	_____	_____	_____
.15) Work Opportunity Credit for certified eligible employees who begin work before January 1, 2006 (WFTRA 2004). Note special rules for New York City employees (JCWAA 2002). (Form 5884)	_____	_____	_____
.16) Credit for qualified clinical testing expenses (Orphan Drug Credit) and associated carrybacks and carryovers. (Form 8820)	_____	_____	_____
.17) Welfare-to-work credit for eligible employees who begin work before January 1, 2006 (WFTRA 2004).	_____	_____	_____
.18) Credit for employer-provided child care expenses. (Form 8882) (§ 45F)	_____	_____	_____
.19) Credit for pension plan start-up costs. (Form 8881) (§ 45E)	_____	_____	_____
.20) Renewal community employment credit for qualifying wages paid after December 31, 2001, and before January 1, 2010. (Form 8844) (§§ 1396 and 1400H)	_____	_____	_____
.21) New markets tax credit for qualifying investments in a "Community Development Entity." (Form 8874) (§45 D)	_____	_____	_____
141) Inquire if foreign financial accounts exist (Form TD F 90-22.1).	_____	_____	_____
142) Determine if the partnership:			
.1) Created a foreign trust.	_____	_____	_____
.2) Transferred property to a foreign trust.	_____	_____	_____
.3) Received distributions, directly or indirectly, from a foreign trust (§ 6048).	_____	_____	_____
.4) Received loans, unless with arm's-length terms, from a foreign trust.	_____	_____	_____
.5) Is a beneficiary of a foreign trust and transferred property to a foreign grantor of the trust.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
143) Consider filing information returns relating to ownership in foreign partnerships. (Form 8865 and final Reg. § 1.6038-3 (T.D. 9065) and foreign corporations Form 5471).	_____	_____	_____
144) Consider disaster relief provisions.	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of dividend and interest income with prior year amounts.	_____	_____	_____
202) Review Forms 1099 and year-end statements for dividends, interest, and gross proceeds from sales.	_____	_____	_____
203) Determine that only trade or business (e.g., not portfolio or rental) income is shown on Page 1 of Form 1065. Report rental real estate activities on Form 8825.	_____	_____	_____
204) If installment sale rules apply, see Installment Sale Checklist. Note that for sales occurring after October 22, 2004, readily tradable debt is treated the same as cash (AJCA 2004).	_____	_____	_____
205) If long-term contract rules apply, see Long-term Contracts Checklist.	_____	_____	_____
206) If a Form 1099-OID is received, compute includible amount.	_____	_____	_____
207) Review dividends to segregate taxable, nontaxable and capital gain portions. Consider whether stock dividends are included.	_____	_____	_____
208) Deferred income and expenses:			
.1) Include in gross income, as appropriate, income deferred for books in the current year.	_____	_____	_____
.2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year.	_____	_____	_____
.3) Consider whether there are any advance payments for goods that can be determined under Reg. § 1.451-5. Note the information schedule requirements.	_____	_____	_____
.4) Consider the proper tax treatment for certain advance payments. (Rev. Proc. 71-21 and Rev. Proc. 2004-34)	_____	_____	_____
.5) Determine deductibility of prepaid expenses. (See Reg. § 1.263(a)-4.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
209) If property was sold, exchanged, or involuntarily converted during the year:			
.1) Reconcile to depreciation schedule.	_____	_____	_____
.2) Determine holding period and federal, state AMT and, if there are any corporate partners, ACE and E&P tax bases.	_____	_____	_____
.3) Determine that gains and losses are properly characterized.	_____	_____	_____
.4) For § 1231 gains, determine the amount subject to ordinary income treatment as a result of five-year recapture rule for prior net § 1231 losses.	_____	_____	_____
.5) Determine allocation of built-in gain/loss. (§ 704 (c))	_____	_____	_____
.6) Determine that sales of securities settled after year-end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233.	_____	_____	_____
.7) Review application of the wash sale rules.	_____	_____	_____
.8) Report gains on constructive sales of appreciated financial positions. Note exception under § 1259(c)(3).	_____	_____	_____
.9) Review application of straddle rules and available elections under § 1092. (See final Reg. § 1.1092(c) -1.)	_____	_____	_____
.10) Consider allowable methods of calculating basis on the sale of mutual fund shares.	_____	_____	_____
.11) Consider if limitations apply for a mutual fund sold within six months of acquisition.	_____	_____	_____
.12) Consider the effect on basis of nontaxable stock dividends, reinvested dividends and OID.	_____	_____	_____
.13) Consider provisions related to:			
(a) Rules for like-kind and related party exchanges. (Form 8824) Note restrictions on exchange of U.S. property for foreign property. (See T.D. 9151, 8/12/04/ replacing the SIC system with the NAIC system.)	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(b) Recapture of depreciation (including § 291 recapture) and/or tax credit, or reduction of credit carryforwards. Note § 1245 applications.	_____	_____	_____
(c) Presumption of capital gain relating to subdivision of land. (§ 1237)	_____	_____	_____
(d) Forced sale of livestock on account of weather-related conditions. Note expansion of events that are treated as an involuntary conversion and extension of the replacement period (AJCA 2004).	_____	_____	_____
(e) Election to rollover gain from the sale of qualified small business stock.	_____	_____	_____
(f) Involuntary conversion rules and election.	_____	_____	_____
210) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
211) Determine if there were sales or exchanges during the year between the partnership and a partner, or a related party to a partner, to ensure compliance with §§ 267 and 707.	_____	_____	_____
212) For leased vehicles, calculate the appropriate income inclusion amount to be reported (see Vehicle Related Guides).	_____	_____	_____
213) Determine if securities held by the partnership became worthless during the year. Note that substantial worthlessness of short sale property is a gain recognition event.	_____	_____	_____
214) Consider the mark-to-market rules for “dealers in securities” under § 475 and the related § 481 adjustment.	_____	_____	_____
215) Inquire whether the taxpayer engaged in bartering transactions.	_____	_____	_____
216) Consider exclusion from income of cash or rent reduction received from lessors, under a short-term lease of rental space, utilized to construct leasehold improvements that will revert to the lessor at termination of lease.	_____	_____	_____
217) Consider the extraterritorial income exclusion for qualified foreign trade income. (Form 8873)	_____	_____	_____
218) Consider the need to file Form 5713, International Boycott Report.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
300) DEDUCTIONS			
301) Review the taxpayer's vacation pay accrual policy to determine if a deduction is allowable on the accrual basis (i.e., vested at year-end and paid within 2½ months after year-end).	_____	_____	_____
302) If the uniform capitalization rules apply, see Uniform Capitalization Checklist.	_____	_____	_____
303) If long-term contract rules apply, see Long-term Contracts Checklist.	_____	_____	_____
304) For charitable contributions consider:			
.1) If contributions are to qualified charitable organizations.	_____	_____	_____
.2) Charitable contribution limitations.	_____	_____	_____
.3) Reduction of contribution deduction due to value of college athletic tickets or token benefits.	_____	_____	_____
.4) If adequate contemporaneous documentation was obtained for charitable contributions of \$250 or more and quid pro quo contributions in excess of \$75.	_____	_____	_____
.5) The exception allowing the deduction of the fair market value of qualified appreciated stock donated to a private foundation.	_____	_____	_____
.6) Contributions other than cash in excess of \$500 require Form 8283 and possibly an appraisal. Note: Certain noncash donations exceeding \$500,000 in value now require the partnership to attach a qualified appraisal to its tax return for the year of the donation (AJCA 2004).	_____	_____	_____
.7) New rules for charitable donations of patents and other intellectual property (AJCA 2004).	_____	_____	_____
305) Determine that all guaranteed payments made to partners for services or use of capital that were determined without regard to income have been deducted in computing ordinary income, or have been capitalized as required.	_____	_____	_____
306) Inquire whether the partnership can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel, conventions. Consider optional per diem method and note limitation on deductibility of certain non-employee travel expenses. (See Rev. Proc. 2003-80; see also, Rev. Proc. 2004-29, regarding the ability to use statistical sampling for meals and entertainment expenses that are not subject to the 50% limitation.)	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
307) Limit meals and entertainment to allowable percentage. Consider exceptions, including employer-provided meals. Note new rule that limits the deduction for entertainment etc., provided to officers, directors, and 10%-or-more owners to amount included in the recipient's compensation (AJCA 2004).	_____	_____	_____
308) Determine the deductibility of club dues.	_____	_____	_____
309) Determine that certain lobbying expenses are not deducted. (Note exceptions.)	_____	_____	_____
310) Inquire if dues include nondeductible lobbying expenses.	_____	_____	_____
311) Determine that proper allocation of interest expense has been made if the proceeds of a loan were used for more than one purpose.	_____	_____	_____
312) Determine that proper classifications have been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.).	_____	_____	_____
313) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
314) Other interest considerations:			
.1) Treat amortizable bond premiums (for bonds acquired after 1987) as an offset to interest income. (Note election under § 171(c).)	_____	_____	_____
.2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current or former beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. Note phase-in rules and additional limitations for new or materially changed contracts issued after June 8, 1997.	_____	_____	_____
.3) Determine if there is an allowable interest deduction related to deferred compensation agreements.	_____	_____	_____
315) Determine that retirement plan contributions have been calculated using the eligible compensation limit and obtain a listing of dates and amounts paid.	_____	_____	_____
316) If taxpayer maintains a profit-sharing plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
317) Determine that the partnership has not deducted interest or expenses accrued to a partner or a related party unless it is includible in the income of the partner or related party. (§ 267)	_____	_____	_____
318) Determine that expenses (including interest) allocable to portfolio income have not been deducted on Page 1, Form 1065. They should be reported on Schedule K.	_____	_____	_____
319) If a partner has received an interest in exchange for services rendered, determine if the partnership has properly accounted for the exchange. (Rev. Proc. 93-27 and Rev. Proc. 2001-43.)	_____	_____	_____
320) Determine that the nonaccrual experience method or specific write-off method is used for bad debts.	_____	_____	_____
321) Review partially worthless debts for write-off under Reg. § 1.166-3.	_____	_____	_____
322) Consider option to deduct current year qualifying disaster losses on the appropriate preceding year tax return.	_____	_____	_____
323) Determine applicability of 2½-month deferred compensation rule for employees and independent contractors.	_____	_____	_____
324) Determine if deductions should be reduced by various credits claimed.	_____	_____	_____
325) Determine proper treatment of environmental clean-up expenses. Note expense election under § 198 and Rev. Rul. 2004-18. (WFTRA 2004)	_____	_____	_____
326) Determine proper tax treatment for long-term lease agreements (as lessor or lessee) where the lease provides for deferred payments or increasing payments. (See also Reg. § 1.467-9.)	_____	_____	_____
327) Determine if inventory write down for book purposes should be adjusted for tax purposes. Note that the law allows for estimated inventory shrinkage.	_____	_____	_____
328) If this is first year that the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception (Rev. Procs. 92-28 and 94-32).	_____	_____	_____
329) Consider § 266 election to capitalize carrying charges (interest, taxes, etc.) on non-productive property.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
330) Determine the proper treatment for costs incurred to acquire or create intangible assets. (See Rev. Proc. 2004-23 and final Reg. §§ 1.263(a)-4, 1.263(a)-5, and 1.167(a)-3(b), T.D. 9107.)	_____	_____	_____
331) Determine the proper treatment for partner unreimbursed expenses. (See <i>M.T. Hines</i> , T.C. Summary Opinion 2004-55.)	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) For assets placed in service during the current year:			
.1) Consider additional first year depreciation allowance of:	_____	_____	_____
a.) 50% of adjusted basis of "50-percent bonus depreciation property" placed in service after May 5, 2003, or before January 1, 2005. (JGTRRA 2003)	_____	_____	_____
b.) 30% of adjusted basis for 50% bonus depreciation property placed in service after May 5, 2003, and before January 1, 2005. Note special election must be made on tax return. (JGTRRA 2003)	_____	_____	_____
.2) Consider election out of bonus depreciation.	_____	_____	_____
.3) Consider § 179 election to expense qualifying assets. Note new allowable amounts.	_____	_____	_____
.4) Consider election to expense qualifying clean-fuel vehicle and related refueling property under § 179A.	_____	_____	_____
.5) Consider "off-the-shelf" software as eligible for §179 election for tax years beginning after 2002 and ending before 2006. (JGTRRA 2003)	_____	_____	_____
.6) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property.	_____	_____	_____
.7) Determine the depreciable basis of each asset.	_____	_____	_____
.8) Determine the property class, recovery period and depreciation method for each asset. Note limitations on property qualifying for income forecast method and designated lives of rent-to-own property.	_____	_____	_____
.9) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.10) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period.	_____	_____	_____
.11) Determine if leasehold improvements is "qualified leasehold improvement property" or restaurant property for use of 15-year recovery period for property placed in service after October 22, 2004 and before 2006. (AJCA 2004)	_____	_____	_____
.12) Consider 36-month amortization rules for software.	_____	_____	_____
.13) Consider reduced depreciable lives for real estate improvements and special use structures.	_____	_____	_____
.14) Consider cost segregation analysis for building additions. ((<i>Hospital Corporation of America</i> , 109 TC 21 (1997); and <i>Brookshire Brothers</i> , 320 F.3d 507 (5 th Cir. 2003).)	_____	_____	_____
.15) Consider electing the Alternative Depreciation System (ADS) (straight-line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.16) Consider electing the 150% DB method over the recovery periods applicable to the regular tax for tangible personal property otherwise qualifying for the 200% DB method.	_____	_____	_____
.17) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.18) If property is leased to a tax-exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.19) Consider depreciation limitations for Industrial Development Bond (IDB) financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.20) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.21) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.22) Determine if interest is payable under look-back method where income forecast method is used. Note interest calculation change.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.23) Consider modifications to the income forecast method of depreciation for property placed in service after October 22, 2004 as it relates to "participations and residuals." (AJCA 2004)	_____	_____	_____
.24) Consider election under § 181(a)(2) to deduct cost of production in the year incurred for qualified film and television productions for costs incurred after October 22, 2004 and before January 1, 2009. (AJCA 2004)	_____	_____	_____
.25) Consider accelerated depreciation for qualifying property located on Indian reservations.	_____	_____	_____
.26) Determine if New York Liberty Zone or NYC benefits and incentives are applicable. (JCWAA 2002)	_____	_____	_____
.27) Consider bonus depreciation on adjusted basis of qualified property acquired by taxpayer in a § 1031 like-kind exchange or a § 1033 involuntary conversion. (Prop. Reg. § 1.168-1(f)(5))	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
403) Consider the provisions of Rev. Proc. 2002-54 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____
404) Determine if leased property/equipment should be capitalized.	_____	_____	_____
405) Consider anti-churning rules.	_____	_____	_____
406) For listed property (e.g., cellular phones, business vehicles, computers, airplanes, boats):			
.1) For business vehicles, consider the maximum allowable under the luxury auto rules. Note exceptions for clean burning, electric and vehicles with GVW of more than 6,000 lbs. and qualified non-personal use trucks and vans placed in service after July 6, 2003. (Reg. § 1.280F-6(c)(3)(iii) and Rev. Proc. 2004-20) Note: State rules may differ from the federal.	_____	_____	_____
.2) For business vehicles purchased after October 22, 2004, consider the new § 179 expensing limitations for sports utility vehicles rated at 14,000 lbs. gross vehicle weight or less. (AJCA 2004)	_____	_____	_____
.3) For vehicles, determine limitation if the business usage is 50% or less.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____
.5) Inquire if the individual has kept the required records indicating the business and personal use of property. Note certain travel between home and temporary work locations is considered business.	_____	_____	_____
.6) Determine recapture if the business usage has declined to 50% or less.	_____	_____	_____
407) Determine depreciation for property received in a like-kind exchange or involuntary conversion. (See Reg. § 1.168(i)-6T for transactions occurring after February 27, 2004, or Notice 2000-4 for transactions occurring prior to this date.)	_____	_____	_____
408) Form 4562 if required:			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete all questions regarding personal use of listed property. Also applies to standard mileage rate autos unless Form 2106 or Schedule C Part IV is used.	_____	_____	_____
.3) If costs were incurred during the current year, determine that all amortizable items are separately stated and the proper Code section cited.	_____	_____	_____
409) Consider state depreciation, if different. Note that not all states allow the new 30% and/or 50% bonus depreciation and/or increased section 179 expense amounts.	_____	_____	_____
410) Consider federal and state AMT depreciation. Note depreciable lives of tangible personal property placed in service after 1998 are the same for regular and AMT purposes. Note also that the 30% and 50% first-year depreciation under JCWAA of 2002 and JGTRRA 2003 applies for AMT purposes.	_____	_____	_____
411) Make adjustments for depreciable assets that are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____
412) Report depreciation recapture and related investment credit recapture if taxpayer converted depreciable business assets to non-business personal assets.	_____	_____	_____
413) Determine depreciation allowable for proper after "use-change." (Final Reg. § 1.168(i)-4)	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
414) Consider Rev. Proc. 2004-11 for claiming depreciation after disposal of an asset.	_____	_____	_____
500) PARTNER DATA —SCHEDULE K-1			
501) Verify correctness of partner name, address and identification number.	_____	_____	_____
502) Complete the analysis of distributive items at the bottom of Schedule K.	_____	_____	_____
503) If the partnership has acquired real estate after December 31, 1986, or a partner has acquired an interest in the partnership after December 31, 1986:			
.1) Apply the at-risk rules.	_____	_____	_____
.2) Identify qualified nonrecourse debt allocated to the partners. (Note clarification to rules for LLCs in final Reg. § 1.465-27.)	_____	_____	_____
504) Consider whether income from a pre-1987 installment sale should be considered passive income.	_____	_____	_____
505) Verify that the beginning and ending total partners' capital accounts on Schedule L agree with the reconciliation of partners' capital accounts—Schedule M-2. If the M-2 capital account is a § 704 capital account and it is different than that used on Schedule L, attach a reconciliation.	_____	_____	_____
506) Complete each partner's reconciliation of capital. Verify that the total agrees to the corresponding line on Schedule M-2.	_____	_____	_____
507) Determine if there has been a transfer of partnership interests during the year and if so, allocate income or loss in accordance with § 706.	_____	_____	_____
508) Determine that allocations for deceased partners are consistent with § 706. Note that a partnership's taxable year closes with respect to a deceased partner.	_____	_____	_____
509) Determine the allocation of the partnership's recourse, nonrecourse and qualified nonrecourse liabilities and enter separately on each partner's Schedule K-1. Note that the final § 752 regulations may require debt to be allocated other than in accordance with the profit or loss percentages.	_____	_____	_____
510) Ensure that the partnership return and K-1s report results on an activity-by- activity basis.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
511) Distribute each item on Schedule K among the Schedule K-1s in accordance with the provisions of the partnership agreement, or in accordance with § 704(b) if the partnership agreement is silent on § 704(b). (See § 704(b) Tax Practice Guide.)	_____	_____	_____
512) Determine that proper reporting and detail have been provided for all items that affect partners' tax liability, such as:			
.1) Ordinary trade or business activities.	_____	_____	_____
.2) Rental activities.	_____	_____	_____
.3) Depreciation of built-in gain/loss property. (§ 704(c))	_____	_____	_____
.4) Portfolio income by type (e.g., U.S. government interest income, state or municipal interest income), and related deductions. Consider need to attach required statement under Reg. § 1.265-1(d)(1).	_____	_____	_____
.5) Gains and losses, dates of dispositions, respective holding periods and types of assets sold.	_____	_____	_____
.6) Passive activity data. (See Passive Activity Checklist.)	_____	_____	_____
.7) Partners' medical insurance and other fringe benefits. (Rev. Rul. 91-26)	_____	_____	_____
.8) Discharge of indebtedness income.	_____	_____	_____
.9) Self-charged interest. Note final Reg. § 1.469-7 allowing for possible recharacterization of interest income. (See Passive Activity Checklist.)	_____	_____	_____
.10) All items that affect partner basis calculations (e.g., nondeductible items).	_____	_____	_____
.11) Guaranteed payments (matching of deduction by partnership and income for partner is required). Note also that group benefits provided to a partner must be treated as guaranteed payments. (Rev. Rul. 91-26)	_____	_____	_____
.12) Credit information.	_____	_____	_____
.13) Interest incurred in the production of property, which may have to be capitalized at the partner level.	_____	_____	_____
.14) Casualty loss information.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.15) Charitable contributions, including a copy of Form 8283 when required.	_____	_____	_____
.16) Other passthrough items (e.g., intangible drilling costs, depletion).	_____	_____	_____
.17) Income or deductions arising from a § 734 or § 743 basis adjustment. (See Reg. §§ 1.734-1 and 1.743-1.) Note new mandatory basis adjustment requirements for partnership distributions or transfers of partnership interests which involve a substantial built-in loss (AJCA 2004).	_____	_____	_____
.18) Unrelated business taxable income.			
.19) Note new reporting requirements for different types of ordinary dividends. (JGTRRA 2003)	_____	_____	_____
513) Determine whether the partnership was required to register as a tax shelter. If so, enter the registration number on each Schedule K-1.	_____	_____	_____
514) Determine that Form 8271 and appropriate Schedules K-1 are attached if the partnership invested in a registered tax shelter. Note that a copy of Form 8271 must be sent to each individual partner.	_____	_____	_____
515) Segregate all tax preference, alternative minimum tax adjustment items, and E&P items and list on the appropriate lines of Schedules K & K-1.	_____	_____	_____
516) Prepare schedules that reflect information to allow each partner to compute credit recapture.	_____	_____	_____
517) Determine that information relating to interest expense on debt-financed distributions to partners has been provided. (Notice 89-35)	_____	_____	_____
518) If the partnership has foreign partners:			
.1) Determine that proper withholding was made. (§§ 1441-1446) (Note final regulations under § 1441.)	_____	_____	_____
.2) Determine that proper payment of withholding has been made. (EFTPS)	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Compare net income or loss to projections for reasonableness.	_____	_____	_____
602) Compute net earnings from self-employment for applicable partners and enter on Schedules K and applicable K-1.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
603) If a tiered partnership arrangement exists, review §§ 706(c)(2)(B) and 706(d)(3) regarding allocation rules.	_____	_____	_____
604) Consider elections and statements such as:			
.1) Election to amortize organization expenses. Note: Effective for organizational costs incurred after October 22, 2004, a partnership can elect to expense up to \$5,000 of the costs. The \$5,000 amount is reduced to the extent the organizational costs exceed \$50,000. Any organizational costs that are not expensed must be amortized over 180 months. (AJCA 2004)	_____	_____	_____
.2) Cash vs. accrual method of accounting.	_____	_____	_____
.3) Election to expense intangible drilling costs.	_____	_____	_____
.4) Election to amortize business start-up costs. Note: Effective for start-up costs incurred after October 22, 2004, a partnership can elect to expense up to \$5,000 of the costs. The \$5,000 amount is reduced to the extent the start-up costs exceed \$50,000. Any start-up costs that are not expensed must be amortized over 180 months. (AJCA 2004)	_____	_____	_____
.5) Method for valuation of inventory.	_____	_____	_____
.6) Method of calculating § 263A adjustment.	_____	_____	_____
.7) Research and experimental cost election.	_____	_____	_____
.8) Exception from economic performance for recurring items. Under the final regulations, the election for item(s) incurred for the first time is made by accounting for the item(s) under the recurring method on a timely filed return. Note that this election does not apply to tax shelters. (§ 461(i))	_____	_____	_____
.9) If this is the first year the taxpayer incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception. (Rev. Procs. 92-28 and 94-32)	_____	_____	_____
.10) Election to be treated as a partnership. (Form 8832)	_____	_____	_____
.11) Change in accounting method application/approval.	_____	_____	_____
.12) Election to step up basis. (§ 754)	_____	_____	_____
.13) Election to be treated as a large partnership.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.14) Statement required under Reg. § 1.708-1 for the merger or division of a partnership.	_____	_____	_____
605) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____
.2) Schedule M-2 beginning equity accounts to prior year's ending balance.	_____	_____	_____
.3) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances.	_____	_____	_____
606) Determine that book/tax accounting method differences related to Schedule M-1 are documented in the workpaper files. Consider reporting on Schedule K-1.	_____	_____	_____
607) Determine if any expenditures were incurred that are eligible for the disabled access credit. (See Form 8826.) If the taxpayer does not qualify for the credit or has expenditures in excess of the credit limit, consider making a § 190 election to expense the costs.	_____	_____	_____
608) If the partnership is a party to an "applicable asset acquisition" (i.e., a transfer of assets that constitutes a trade or business or a transfer or distribution to which § 755 applies), determine that applicable reporting requirements regarding allocation of purchase price have been met (Form 8594).	_____	_____	_____
609) When the partnership owns an interest in another partnership:			
.1) Consider § 465 at-risk and/or § 704(d) basis rules.	_____	_____	_____
.2) Report appropriate recourse and nonrecourse debt from the other partnership on the partners' Schedules K-1. (Rev. Rul. 77-309)	_____	_____	_____
.3) If a distribution or technical termination has occurred in a partnership in which this partnership is a partner, consider both the allocation of basis rules under § 732(c) and Reg. § 1.732-1(c) and, for distributions only, making a § 732(d) election.	_____	_____	_____
610) Consider § 6662 accuracy-related penalty.	_____	_____	_____
.1) Determine if disclosure is adequate. (Rev. Proc. 2003-77, updating Rev. Proc. 2002-66, and Forms 8275 and 8275R)	_____	_____	_____
.2) Determine if the partnership is a tax shelter for purposes of §6662.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
611) Determine whether the partnership has a reportable transaction that is required to be disclosed on Form 8886. Note new registration and reporting requirements (AJCA 2004).	_____	_____	_____
612) Consider informing client of requirement to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____
613) If a partnership interest was sold during the year, attach Form 8308 (if required) to the partnership return and send copies to the transferor and transferee. Note that certain contribution-distribution arrangements may constitute a "disguised sale" under the final regulations under § 707(a)(2). Some of these transactions may be required to be reported on Form 8275 or 8275-R. (Reg. § 1.707-8)	_____	_____	_____
614) If the partnership sells an interest it owns in another partnership determine:			
.1) That appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	_____	_____
.2) That the required statement under Reg. § 1.751-1(a)(3) is attached if the partnership had any § 751(a) assets.	_____	_____	_____
615) If the partnership acquires an interest in another partnership, consider providing appropriate information to the partnership.	_____	_____	_____
616) If a new partner was admitted, determine if existing partners realized ordinary income due to a reduction in their share of unrealized receivables. Note that if there has been an in-kind distribution, consider gain recognition.	_____	_____	_____
617) Review prior year's return Schedule M-1 for items which may have an effect upon or require similar treatment in the current year.	_____	_____	_____
.1) Reconcile income per books with return (determine nontaxable income not included).	_____	_____	_____
.2) Reconcile expenses per books with return (determine nondeductible items not included).	_____	_____	_____
618) Attach extension requests.	_____	_____	_____
619) Determine that related party transactions are reported on all available returns.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
620) Information returns:			
.1) Inquire whether the partnership has filed all required information returns Forms 1099 and 1098 and whether the value of the personal use of employer property, expense reimbursements under "nonaccountable plans" and § 401(k) deferred compensation information have been included in its employees' Forms W-2.	_____	_____	_____
.2) Inquire if the taxpayer has complied with magnetic media filing requirements for Forms 1099 and W-2.	_____	_____	_____
.3) Inquire if additional items subject to employer FICA, such as § 401(k) deferrals, vested nonqualified deferred compensation, employer-provided excess group-term life insurance, all cash tips, etc., have been properly reported.	_____	_____	_____
.4) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported.	_____	_____	_____
.5) Inquire whether club dues, spousal travel, restricted property (§ 83(b) election), etc., is treated as compensation and included on employees' Forms W-2.	_____	_____	_____
.6) Consider filing information returns relating to foreign partnerships and corporations.	_____	_____	_____
621) Determine whether nonqualified deferred compensation is required to be included in the service provider's current year's gross income (AJCA 2004).	_____	_____	_____
622) Inquire if employment taxes were timely deposited. (EFTPS)	_____	_____	_____
623) Inquire if the required Forms 5500 have been filed for retirement plans covered by this period.	_____	_____	_____
624) Inquire if the employee benefit plans have been reviewed to determine if they are in compliance due to changing partnership circumstances and law changes.	_____	_____	_____
625) Inquire if Form 5500 has been filed for welfare benefit plans (e.g., medical benefit plans, life insurance, disability or death benefit plans that have more than 100 participants).	_____	_____	_____
626) Advise the partnership that any unpaid retirement plan contribution for the year must be made before the due date of the return, including extensions. Note that contributions to defined benefit plans may have earlier due dates.	_____	_____	_____

PARTNERSHIP RETURN OF INCOME CHECKLIST
2004 - FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
627) Note tax planning/additional service suggestions. See Client Review for Additional Services.	_____	_____	_____

COMMENTS OR EXPLANATIONS

LIMITED LIABILITY ENTITY (LLC, LLP, et. al.)
ADDENDUM TO THE PARTNERSHIP RETURN OF INCOME CHECKLIST
2004—FORM 1065

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) Selection of Tax Matter Partner ("TMP")	_____	_____	_____
.1) Note final Reg. § 301.6231(a)(7)-2, which provides guidance on determining the TMP.	_____	_____	_____
.2) If the limited liability entity (LLE) has not designated a TMP, consider the impact of the default selection rule in § 6231(a)(7) on who will be the TMP for the LLE.	_____	_____	_____
101) Consider the state filing requirements for LLE	_____	_____	_____
.1) Determine if state law may subject the LLE to either the state franchise tax, state corporate income tax or to a minimum filing fee based upon the number of members in the LLE.	_____	_____	_____
.2) Determine if the partnership nonresident withholding rules apply to the LLE.	_____	_____	_____
.3) Determine if the LLE should consider requesting permission to file a composite state return.	_____	_____	_____
102) If the LLE is on the cash basis, determine if the tax shelter rules as defined in §§ 448(d)(3), 461(i)(3) and 1256(e)(3)(B) require the LLE to use the accrual method of accounting.	_____	_____	_____
103) If the LLE was relieved of any debt during the year, determine if the treatment of the debt relief (either as sales proceeds or cancellation of indebtedness income) is appropriate in light of the limited liability nature of an LLE.	_____	_____	_____
104) Determine if payments to a deceased or retired partner need to be reclassified if the payments qualified under § 736(b)(3).	_____	_____	_____
105) Determine if the status of the entity affects the characterization of entity level debt as recourse or nonrecourse.	_____	_____	_____
.1) If the LLE was originally a partnership, consider whether state law imposes continuing personal liability on any of the members for debt that is recourse at the time of the conversion to an LLE.	_____	_____	_____

LIMITED LIABILITY ENTITY (LLC, LLP, et. al.)
ADDENDUM TO THE PARTNERSHIP RETURN OF INCOME CHECKLIST
2004—FORM 1065

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) If the LLE has a deficit restoration obligation provision, determine whether outside creditors have the right to enforce this provision. If they do, this may affect whether the debt is viewed as recourse or nonrecourse.	<hr/>	<hr/>	<hr/>
.3) If special circumstances such as (.1) and (.2) above are not applicable, unless a member has guaranteed or is otherwise personally liable on the LLE debt, the debt will probably be viewed as nonrecourse.	<hr/>	<hr/>	<hr/>
.4) If the entity is converting from a partnership to an LLE, consider whether the nonrecourse debt allocation provisions in Reg. § 1.752-3 require the LLE debt be allocated in a different manner than it had been allocated when it was recourse debt.	<hr/>	<hr/>	<hr/>
106) Under the at-risk rules:			
.1) Determine if additional amounts are at risk for the non-managing members under the qualified nonrecourse debt rules since the LLE may not have any recourse debt.	<hr/>	<hr/>	<hr/>
.2) Determine if lesser amounts are at risk for the managing members since the managing members may not be personally liable for the debt.	<hr/>	<hr/>	<hr/>
.3) Consider the clarification to the qualified nonrecourse debt rules for LLCs in Reg. § 1.465-27.	<hr/>	<hr/>	<hr/>
107) Determine if the managing members of an LLE are subject to the passive activity rules due to the more stringent tests applicable to limited partners.	<hr/>	<hr/>	<hr/>
108) Determine if the LLE members' income is subject to self-employment tax. Consider § 1402(a)(13), Prop. Reg. § 1.1402(a)-2 and the moratorium imposed on the IRS's ability to finalize these regulations.	<hr/>	<hr/>	<hr/>
109) Determine if other fringe benefits provided to LLE members are treated properly. See for example Rev. Rul. 91-26.	<hr/>	<hr/>	<hr/>
110) Consider state law issues.	<hr/>	<hr/>	<hr/>
111) If a single-member LLC, note that the entity is a "disregarded entity" for federal tax purposes and has no federal tax filing requirements. Note, however, possible state law issues.	<hr/>	<hr/>	<hr/>

MINI-CHECKLIST
C CORPORATION INCOME TAX RETURN
2004 – FORM 1120

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION			DEDUCTIONS		
1. Consider obtaining signed engagement letter/privilege engagement letter/power of attorney.	_____	_____	1.. Consider uniform capitalization rules. (Uniform Capitalization Checklist)	_____	_____
2. Review prior year returns, workpapers, correspondence, permanent file and audit results.	_____	_____	2. Consider charitable deduction rules and limitations.	_____	_____
3. Review and update corporation's name, address, FYE and business code.	_____	_____	3. Determine deductibility of vacation pay accrual.	_____	_____
4. Review pro forma/organizer for accuracy.	_____	_____	4. Determine applicability of 2½ month deferred comp. rule for nonshareholder employees and independent contractors.	_____	_____
5. Update carryforward schedules, including effect of prior tax audits.	_____	_____	5. Inquire if travel and entertainment expenses are substantiated by adequate records. (Rev. Proc. 2003-80)	_____	_____
6. Review methods of accounting.	_____	_____	6. Limit meals and entertainment to allowable percentage.	_____	_____
7. Reconcile income and expenses per return with books.	_____	_____	7. Consider limitations on deductibility of: Club dues. Lobbying expenses/association dues. Bad debts. Casualty losses. Stock option compensation. Split-dollar insurance treatment (See Reg. § 1.61-22).	_____	_____
8. Prepare Schedule M-3.	_____	_____	8. Review amount and timeliness of retirement plan contributions.	_____	_____
9. Consider below-market-rate loan rules.	_____	_____	9. Consider limitation on tax attribute utilization if there has been a more than 50% ownership change.	_____	_____
10. Review financial statements and footnotes for relevant information.	_____	_____	10. Consider economic performance rules and recurring item exception.	_____	_____
11. Review Board minutes.	_____	_____			
12. Consider filing power of attorney—in addition to "check box" option.	_____	_____			
13. Determine state and local filing requirements.	_____	_____			
14. Consider if disaster relief provisions apply.	_____	_____			
INCOME			DEPRECIATION/AMORTIZATION		
1. Determine that dispositions of property are reported properly.	_____	_____	1. Consider: 50% bonus depreciation (JGTRRA 2003). 30% additional first-year depreciation election for 50% bonus depreciation property (JGTRRA 2003). Election out of bonus depreciation. § 179 election including "off-the-shelf" software (JGTRRA 2003). Methods and lives. Listed property. Capitalization of leased property. Qualified leasehold improvement property (AJCA 2004) Amortization of goodwill and other intangibles.	_____	_____
2. Compute proper dividends-received deduction.	_____	_____	2. Compute AMT and ACE depreciation.	_____	_____
3. If closely held or PSC, consider any passive loss limitations.	_____	_____	3. Compute state depreciation if different.	_____	_____
4. Consider: Discharge of indebtedness. Worthless securities. Deferred income and expenses. Ordinary income on market discount bonds and deferral of related interest expense. Installment sales and related interest charge on deferred tax (Installment Sales Checklist). Sales or exchanges between the corporation and shareholder or other related parties. At-risk rules. Like-kind exchanges. Lease inclusion for luxury autos. Economic accrual of rent. Advance payments (Rev. Proc. 2004-34).	_____	_____			

MINI-CHECKLIST
C CORPORATION INCOME TAX RETURN
2004 – FORM 1120

Done N/A

TAX COMPUTATION AND CREDITS

- | | | | |
|----|---|-------|-------|
| 1. | Compute alternative minimum tax (including ACE adjustment). Note small corporation exception. | _____ | _____ |
| 2. | Consider tax credits. | _____ | _____ |
| 3. | Determine if PHC tax is applicable. | _____ | _____ |
| 4. | Consider accumulated earnings tax exposure. | _____ | _____ |
| 5. | Determine if 35% PSC tax applies. | _____ | _____ |
| 6. | Confirm prior year overpayments, estimates and extension payments. | _____ | _____ |
| 7. | Compute underpayment penalties. | _____ | _____ |

OTHER REQUIREMENTS

- | | | | |
|-----|--|-------|-------|
| 1. | Prepare estimates (EFTPS). | _____ | _____ |
| 2. | Determine if NOL, capital loss or credit carryback claim is required. | _____ | _____ |
| 3. | Consider election to relinquish NOL carryback. | _____ | _____ |
| 4. | Consider elections and statements such as: | | |
| | Amortize or expense organization expenses (AJCA 2004) | _____ | _____ |
| | Cash vs. accrual method of accounting | _____ | _____ |
| | Amortize or expense business startup costs (AJCA 2004) | _____ | _____ |
| | Method for valuation of inventory | _____ | _____ |
| | Research and experimental costs | _____ | _____ |
| | Exception from economic performance for recurring items (first year only) | _____ | _____ |
| | Ratable accrual of real property taxes (first year only) | _____ | _____ |
| 5. | Inquire whether all information reporting returns have been filed. | _____ | _____ |
| 6. | Consider accuracy-related penalty (§ 6662). | _____ | _____ |
| 7. | Prepare state and local tax returns. | _____ | _____ |
| 8. | Inquire if foreign financial accounts exist. | _____ | _____ |
| 9. | Note tax planning/additional service suggestions. | _____ | _____ |
| 10. | Determine whether the corporation has any reportable transactions that should be disclosed on Form 8886. | _____ | _____ |

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider obtaining signed:			
.1) Engagement letter.	_____	_____	_____
.2) Engagement letter for tax advice under the CPA-client privilege of § 7525.	_____	_____	_____
.3) Power of attorney.	_____	_____	_____
102) Review permanent file, prior year returns, memos, workpapers and correspondence files.	_____	_____	_____
103) Review and update the corporation's name, address, fiscal year, incorporation date, business code, identification number, and IRS and other tax filing addresses.	_____	_____	_____
104) Review pro forma/organizer for accuracy.	_____	_____	_____
105) Check for carryover items and update carryforward schedules, including effects of prior tax audits.	_____	_____	_____
106) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required. (See instructions to Form 3115 and current year revenue procedures for a list of approved automatic changes.)	_____	_____	_____
107) Obtain information concerning IRS and state tax audits and/or correspondence.	_____	_____	_____
108) Review for adequate stated interest on all new or modified debt instruments.	_____	_____	_____
109) Review financial statements and footnotes for relevant information.	_____	_____	_____
110) Review Board minutes.	_____	_____	_____
111) Consider filing Power of Attorney—in addition to "check box" option.	_____	_____	_____
112) Determine state and local filing requirements.	_____	_____	_____
113) Consider if disaster relief provisions apply.	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
200) INCOME			
201) Compare sources and amounts of dividends and interest with prior year.	_____	_____	_____
202) Review Forms 1099 for dividends, interest, and gross sale proceeds.	_____	_____	_____
203) If installment sales rules apply, see Installment Sales Checklist.	_____	_____	_____
204) If long-term contract rules apply, see Long-Term Contracts Checklist.	_____	_____	_____
205) Review dispositions of property for holding period and federal, state, AMT and ACE tax bases. Consider non-recognition, gains, losses and recaptures.	_____	_____	_____
206) Report gains on constructive sales of appreciated financial positions.	_____	_____	_____
207) Consider rules for like-kind and related party exchanges (Form 8824). Note restrictions for U.S. exchange of foreign property. (See T.D. 9151, 8/12/04, replacing the SIC system with the NAIC system.)	_____	_____	_____
208) If accrual basis taxpayer, consider deferral of state or local income or franchise tax refunds. (Rev. Rul. 2003-3)	_____	_____	_____
209) Determine that deferred income and expenses for book purposes are properly reported for tax purposes.	_____	_____	_____
210) Determine proper treatment of certain advance payments. (Rev. Proc. 71-21 and Rev. Proc. 2004-34)	_____	_____	_____
211) Consider whether economic accrual of rent is required.	_____	_____	_____
212) Determine taxability of dividends and complete Schedule C. Consider 20% ownership rule, including possible reduction in the dividends-received deduction under § 246A. Note election to exclude 85% of certain dividends received from a CFC. (AJCA 2004)	_____	_____	_____
213) Exclude tax-exempt income from federal gross income and state and local income as applicable, and determine whether there is interest expense disallowance related to such income.	_____	_____	_____
214) Consider the passive loss limitations for closely-held corporations or PSCs. (See Passive Activity Checklist.)	_____	_____	_____
215) Determine if there is discharge of indebtedness income. Consider exclusion and elections under § 108 and Form 982.	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
216) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
217) Consider mark-to-market rules for “dealers in securities” under § 475 and the related § 481(a) adjustment.	_____	_____	_____
218) Consider the extraterritorial income exclusion on qualified foreign trade income. (Form 8873)	_____	_____	_____
300) DEDUCTIONS			
301) If uniform capitalization rules apply, see Uniform Capitalization Checklist.	_____	_____	_____
302) Consider charitable contribution rules, limitations and contemporaneous receipt requirements. Note stiffer substantiation and appraisal requirements. (AJCA 2004)	_____	_____	_____
303) Identify any nondeductible vacation pay accrual.	_____	_____	_____
304) Inquire whether the corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method. (See Rev. Proc. 2003-80, see also Rev. Proc. 2004-29, regarding the ability to use statistical sampling for meals and entertainment expenses that are not subject to the 50% limitation.)	_____	_____	_____
305) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions, including employer-provided meals. Note limitations for certain expenses in the case of specified individuals. (AJCA 2004)	_____	_____	_____
306) Officers and stockholders:			
.1) Determine the ownership of officers’ life insurance policies and the proper treatment of related expenses.	_____	_____	_____
.2) Determine split-dollar insurance treatment. (See Reg. § 1.61-22.)	_____	_____	_____
.3) Identify expense, including interest if applicable, for officers’ life insurance that is nondeductible.	_____	_____	_____
.4) Determine limitation on any losses or accruals of expenses during the year between related corporation/shareholder under §§ 267(a)(1) and 267(a)(2).	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) If there were any accruals of interest, compensation or other expenses payable to a shareholder or related parties, determine that for tax purposes the deduction is deferred until the year in which it is includible in income of the shareholder or the related party.	_____	_____	_____
.6) If the corporation is a PSC with a fiscal year-end, determine the appropriate distribution and deduction amounts.	_____	_____	_____
.7) Consider whether there is a potential unreasonable compensation issue.	_____	_____	_____
307) Determine if compensation deductions are allowable with respect to qualified and nonqualified stock options.	_____	_____	_____
308) Determine if compensation deductions are allowable if a § 83(b) election is made.	_____	_____	_____
309) Consider limitations on deductibility of:			
.1) Bad debts.	_____	_____	_____
.2) Casualty losses.	_____	_____	_____
.3) Club dues.	_____	_____	_____
.4) Lobbying expenses/association dues.	_____	_____	_____
310) Determine applicability of the 2½-month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
311) Determine that retirement plan contributions have been calculated using the eligible compensation limit and obtain a listing of dates and amounts paid.	_____	_____	_____
312) Consider economic performance requirement and recurring item exception.	_____	_____	_____
313) Consider § 266 election for capitalization of carrying charges on nonproductive property.	_____	_____	_____
314) For accrual-basis taxpayers, determine whether state taxes are properly deducted. (See, e.g., Rev. Rul. 2003-90.)	_____	_____	_____
315) Determine the proper treatment for costs incurred to acquire, create or enhance intangible assets, including prepaid expenses. (See Rev. Proc. 2004-33 and final Reg. §§ 1.263(a)-4, 1.263(a)-5 and 1.167(a)-36, T.D. 9107.)	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) 50% additional first-year depreciation for property placed in service before January 1, 2005. (JGTRRA 2003)	_____	_____	_____
.2) 30% additional first-year depreciation for 50% bonus depreciation property. Note special election must be made on tax return. (JGTRRA 2003)	_____	_____	_____
.3) Election out of bonus depreciation.	_____	_____	_____
.4) § 179 election, including “off-the-shelf” software. Note current allowable amount. (JGTRRA 2003)	_____	_____	_____
.5) Methods and lives.	_____	_____	_____
.6) Limitations related to listed property. (Note exceptions for vehicles with GVW of more than 6,000 lbs. and qualified non-personal use trucks and vans placed in service after July 6, 2003 and before October 23, 2004.) (Reg. § 1.280F-6(c)(3)(iii) and see Rev. Proc. 2004-20.)	_____	_____	_____
.7) For business vehicles purchased after October 22, 2004, consider the new limitations for sport utility vehicles rated at 14,000 lbs. gross vehicle weight or less. (AJCA 2004)	_____	_____	_____
.8) Depreciation of property received in a like-kind exchange or involuntary conversion. (Reg. § 1.168(i)-6T for transactions occurring after February 27, 2004, or Notice 2000-4 for transactions occurring prior to this date.)	_____	_____	_____
.9) Determine if leased property should be capitalized.	_____	_____	_____
.10) Determine if qualified leasehold improvement property or restaurant property for use of 15-year recovery period for property placed in service after October 22, 2004 and before 2006. (AJCA 2004)	_____	_____	_____
.11) Consider 36-month depreciation rules for software.	_____	_____	_____
.12) Election of 150% D.B. method or 200% D.B. method for personal property.	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.13) Reduced depreciable lives for real estate improvements and special structures.	_____	_____	_____
.14) Separate component analysis of building. (<i>H.C.A.</i> 109 T.C. 21 (1997), and <i>Brookshire Brothers</i> , 320 F.3d 507 (5 th Cir. 2003).)	_____	_____	_____
402) Consider filing amended returns under Reg. §1.168(k)-1T(g)(4)(ii.), IRS Notice 2003-45, and Rev. Proc. 2003-50.	_____	_____	_____
403) Consider AMT and ACE depreciation.	_____	_____	_____
404) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
405) Compute State depreciation, if different.	_____	_____	_____
500) TAX COMPUTATIONS AND CREDITS			
501) If this is a consolidated tax return:			
.1) Attach Form 851.	_____	_____	_____
.2) Attach Form 1122 (only for consolidated group's first year).	_____	_____	_____
.3) Review consolidated journal entries and determine that intercompany eliminations and restorations are calculated correctly.	_____	_____	_____
502) If member of controlled group, attach apportionment schedule.	_____	_____	_____
503) Compute alternative minimum tax and ACE adjustment if average gross receipts exceed \$5 million/\$7.5 million, as appropriate.	_____	_____	_____
504) Consider tax credits.	_____	_____	_____
505) Consider limitations on use of NOLs and credits.	_____	_____	_____
506) If corporation is a personal service corporation, calculate tax without benefit of graduated rates.	_____	_____	_____
507) Determine personal holding company status.	_____	_____	_____
508) Determine if accumulated earnings tax exposure is present. Note exceptions.	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
509) Claim current year estimated tax payments, prior year overpayments applied and extension payments.	_____	_____	_____
510) Consider filing for a quick refund (Form 4466).	_____	_____	_____
511) Prepare Form 2220 to compute the penalty for underpayment of estimated tax or the exceptions to the penalty.	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Determine need for estimated tax payments. (EFTPS)	_____	_____	_____
602) If the corporation is a party to an “applicable asset acquisition,” determine that the reporting requirements have been met (Form 8594).	_____	_____	_____
603) Attach schedule for carryforward NOL.	_____	_____	_____
604) If there is a current period NOL, consider the election to forgo the carryback.	_____	_____	_____
605) Consider preparing Form 1139 for carrybacks.	_____	_____	_____
606) If there is an NOL generated or utilized in the current year, disclosure is required of any change in ownership.	_____	_____	_____
607) Consider elections such as:			
.1) Expense or amortization of organization costs. Note limitations and longer recovery period. (AJCA 2004)	_____	_____	_____
.2) Expense or amortization of business start-up costs. Note limitations and longer recovery period. (AJCA 2004)	_____	_____	_____
.3) Ratable accrual of real property taxes (first year only).	_____	_____	_____
.4) Cash vs. accrual method of accounting.	_____	_____	_____
.5) Method for valuation of inventory.	_____	_____	_____
.6) Research and experimental costs.	_____	_____	_____
.7) Exception from economic performance for recurring items (first year only).	_____	_____	_____
608) Consider applicable reporting requirements for liquidations, reorganizations, and tax-free transfers to controlled corporations.	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
609) Reconcile net income per books to taxable income per return.	_____	_____	_____
610) Prepare Schedule M-3.	_____	_____	_____
611) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____
.2) Schedule L total ending assets to total assets reported on Form 1120, page 1.	_____	_____	_____
.3) Schedule M-2 beginning and ending retained earnings to Schedule L.	_____	_____	_____
.4) Carryforward items to carryover schedule/prior year returns.	_____	_____	_____
612) Consider accuracy - related penalty and determine if disclosure is adequate. (Rev. Proc. 2002-66)	_____	_____	_____
613) Consider state tax return issues (see Nexus Guide) such as:			
.1) Tax credits.	_____	_____	_____
.2) Doing business in new states.	_____	_____	_____
.3) Unitary or consolidated filing requirements.	_____	_____	_____
.4) Allocation of investment income.	_____	_____	_____
.5) Credits for income taxes paid to other states.	_____	_____	_____
614) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing corporate circumstances and law changes.	_____	_____	_____
615) Advise the client that any unpaid retirement plan contribution for the year must be made before the due date of the return, including extension. Note: Contributions to defined benefit plan may have earlier due date.	_____	_____	_____
616) Compare taxable income to projections for reasonableness.	_____	_____	_____
617) Determine that related party transactions are properly reported on all available returns.	_____	_____	_____

SHORT VERSION
C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
618) Inquire if Forms 1099 and 1098 have been filed.	_____	_____	_____
619) Inquire if employment taxes were timely deposited. (EFTPS)	_____	_____	_____
620) Consider whether an “S” election should be made.	_____	_____	_____
621) Note tax planning suggestions. See Client Review for Additional Services.	_____	_____	_____
622) Determine whether the corporation has any reportable transactions that should be disclosed on Form 8886.	_____	_____	_____

COMMENTS OR EXPLANATIONS

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider obtaining signed:			
.1) Engagement letter.	_____	_____	_____
.2) Engagement letter for tax advice under the CPA-client privilege of § 7525.	_____	_____	_____
.3) Power of attorney.	_____	_____	_____
102) Review and update the corporation's name, address, fiscal year, incorporation date, business code, identification number, and IRS and other tax filing addresses.	_____	_____	_____
103) Review permanent file, prior year returns, memos, workpapers and correspondence files.	_____	_____	_____
104) Review pro forma/organizer for accuracy.	_____	_____	_____
105) If the corporation has been examined by the IRS, state or local taxing authorities:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine that the agent's adjustments have been entered on the corporation's records and appropriate carryforward workpapers.	_____	_____	_____
.3) If the agent's adjustments affect income tax returns of years other than those audited or the corresponding federal or state returns for the same year, consider filing amended returns.	_____	_____	_____
106) Obtain copies of correspondence with IRS and state taxing authorities. Consider impact.	_____	_____	_____
107) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Prior year overpayment(s) credited to current year estimate.	_____	_____	_____
.2) Prior year deferred deductions.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Net operating loss.	_____	_____	_____
(a) Consider limitations due to change in ownership rules (§ 382).	_____	_____	_____
(b) Consider limitations due to acquisition under § 384.	_____	_____	_____
(c) Consider SRLY limitation for consolidated returns.	_____	_____	_____
.4) Capital loss.	_____	_____	_____
.5) Investment credit.	_____	_____	_____
.6) AMT credit.	_____	_____	_____
.7) Other credits.	_____	_____	_____
.8) Charitable contributions.	_____	_____	_____
.9) Installment sales. Consider appropriate classification for components of gain.	_____	_____	_____
.10) Passive losses/credits.	_____	_____	_____
.11) Suspended losses/credits due to at-risk limitations.	_____	_____	_____
.12) Partnership basis.	_____	_____	_____
.13) Change of accounting method adjustments (§ 481).	_____	_____	_____
.14) § 179 amounts.	_____	_____	_____
.15) For consolidated returns:			
(a) Stock bases.	_____	_____	_____
(b) Excess loss accounts.	_____	_____	_____
(c) Deferred intercompany transactions.	_____	_____	_____
108) Inquire whether the taxpayer has made or received any below-market-rate loans. Determine imputed interest consequences and existence of properly executed note.	_____	_____	_____
109) Review for adequate stated interest on debt instruments:			
.1) Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Consider election for purchased discount under § 1278.	_____	_____	_____
110) Review for proper reporting of interest recognition in accordance with Reg. §§ 1.483-4 and 1.1274-2 for debt instruments providing contingent payments.	_____	_____	_____
111) Consider whether or not corporate capitalization is realistic in light of the debt/equity rules.	_____	_____	_____
112) Document any changes in stock ownership during the tax year.	_____	_____	_____
113) Determine if the corporation is a personal service corporation (PSC) and is required to file on a calendar-year basis. If the PSC has made a § 444 election to have an allowable fiscal tax year, determine that Form 8716 has been timely filed. Note that a copy of Form 8716 must be attached to Form 1120 for the first tax year for which the election is made.	_____	_____	_____
114) If gross receipts exceed \$5 million, consider requirement for accrual basis method of accounting.	_____	_____	_____
115) Consider automatic consent to change to cash method of accounting or materials and supplies method for accounting for inventories. (Rev. Proc. 2002-28)	_____	_____	_____
116) Determine whether the nonaccrual experience method can be used by an accrual method service provider.	_____	_____	_____
117) Determine if accounting methods used are comparable to the preceding year unless changes are approved or required. (See instructions to Form 3115 and current year revenue procedures for a list of approved automatic changes.)	_____	_____	_____
118) Consider economic performance requirements and recurring item exception.	_____	_____	_____
119) Review financial statements and footnotes for relevant information.	_____	_____	_____
120) Review Board minutes.	_____	_____	_____
121) Consider filing Power of Attorney—in addition to “check box” option.	_____	_____	_____
122) Determine state and local filing requirements. (See Nexus Practice Guide.)	_____	_____	_____
123) Consider if disaster relief provisions apply.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
200) INCOME			
201) Compare sources and amounts of dividends and interest with prior year. Consider whether stock dividends are included.	_____	_____	_____
202) Review Forms 1099 and year-end statements for dividends, interest, and gross sale proceeds.	_____	_____	_____
203) Segregate ordinary income, capital gains, and non-taxable interest and dividends.	_____	_____	_____
204) If installment method rules apply, see Installment Sales Checklist.	_____	_____	_____
205) If long-term contract rules apply, see Long-Term Contracts Checklist.	_____	_____	_____
206) If property was sold, exchanged or involuntarily converted during the year:			
.1) Reconcile to depreciation schedule.	_____	_____	_____
.2) Determine holding period and federal, state, AMT and ACE tax bases.	_____	_____	_____
.3) Determine that gains and losses are properly characterized.	_____	_____	_____
.4) For § 1231 gains, determine the amount subject to ordinary income treatment as a result of five-year recapture rule for prior net § 1231 losses.	_____	_____	_____
.5) Determine that sales of securities settled after year-end with a trade date within current year are reported this year. Note special rules for short sales in § 1233.	_____	_____	_____
.6) Review application of the wash sale rules.	_____	_____	_____
.7) Report gains on constructive sales of appreciated financial positions. Note exception under § 1259(c)(3).	_____	_____	_____
.8) Review application of straddle rules and available elections under § 1092. (See final regulation § 1.1092(c)(1))	_____	_____	_____
.9) Consider allowable methods of calculating basis on the sale of mutual funds.	_____	_____	_____
.10) Consider if limitations apply for a mutual fund sold within six months of acquisition.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.11) Consider the effect on basis of nontaxable stock dividends, reinvested dividends and OID.	_____	_____	_____
.12) Consider provisions related to:			
(a) Rules for like-kind and related-party exchanges. (Form 8824) Note restrictions on exchanges of U.S. property for foreign property. (See T.D. 9151, 8/12/04, replacing the SIC system with the NAIC system.)	_____	_____	_____
(b) Recapture of depreciation (including § 291 recapture) and/or tax credit, or reduction of credit carryforwards. Note § 1245 applications.	_____	_____	_____
(c) Presumption of capital gains relating to subdivision of land. (§ 1237)	_____	_____	_____
(d) Gain from distributions of appreciated property.	_____	_____	_____
(e) Forced sale of livestock on account of weather-related conditions. Note longer replacement period for tax years for which the returns are due after 2002. (AJCA 2004) (§ 1033(f))	_____	_____	_____
(f) Election to roll over gain from the sale of qualified small business stock and small business investment company stock (§§ 1044 and 1045).	_____	_____	_____
(g) Sale of "qualified community assets" located in "renewal communities."	_____	_____	_____
(h) Presidentially declared disasters.	_____	_____	_____
(i) Ordinary income treatment of commodities derivatives sold by commodities derivatives dealers; hedging transactions, and supplies of a type regularly consumed in the ordinary course of business.	_____	_____	_____
(j) Involuntary conversion rules and elections.	_____	_____	_____
207) Accrual basis taxpayers should consider deferral of State or local income or franchise tax refunds. (Rev. Rul. 2003-3)	_____	_____	_____
208) Deferred income and expenses:			
.1) Include in gross income, as appropriate, income deferred for books in the current year.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year.	_____	_____	_____
.3) Consider whether there are any advance payments for goods that can be determined under Reg. § 1.451-5. Note the information schedule requirements.	_____	_____	_____
.4) Determine proper tax treatment for certain advance payments. (Rev. Proc. 71-21 and Rev. Proc. 2004-34)	_____	_____	_____
.5) Consider whether economic accrual of rent is required.	_____	_____	_____
.6) Determine deductibility of prepaid expenses. (Reg. 1.263(a)-4)	_____	_____	_____
209) Exclude interest on state or local obligations from federal taxable income; however, enter amounts on Form 1120, Schedule K.	_____	_____	_____
210) Exclude interest on exempt state, local and federal obligations from state and local taxable income.	_____	_____	_____
211) Determine taxability of dividends and complete Schedule C.	_____	_____	_____
.1) Consider 20% ownership rule.	_____	_____	_____
.2) Determine that stock was held more than 45 days (more than 90 days for preferred stock).	_____	_____	_____
.3) Consider reduction in dividends-received deduction where underlying stock is debt-financed (§ 246A).	_____	_____	_____
.4) Determine if extraordinary dividends exceed tax basis.	_____	_____	_____
.5) Consider election to exclude 85% of certain dividends received from a CFC. (AJCA 2004)	_____	_____	_____
212) For passive activities see Passive Activity Checklist and consider:			
.1) Passive activity elections.	_____	_____	_____
.2) If any pass-through entity in which the corporation has an interest has separately reported activities.	_____	_____	_____
213) Determine if either of the following applies. If so, the corporation's losses from an activity may be limited (see Passive Activity Checklist and Form 8810):			

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) During the last half of the year, there are five or fewer individuals who own directly or indirectly more than 50% of the stock.	_____	_____	_____
.2) The corporation is a personal service corporation under § 469(j)(2).	_____	_____	_____
214) Determine if a book-tax adjustment is required for any change in the cash surrender value of key person life insurance.	_____	_____	_____
215) Determine whether income from services does not have to be accrued if, based on experience, such amounts will not be collected (§ 448(d)(5)).	_____	_____	_____
216) For leased vehicles, calculate the appropriate income inclusion amount to be reported by referring to the IRS tables (see Vehicle Related Guides).	_____	_____	_____
217) Determine if there is discharge of indebtedness income.	_____	_____	_____
.1) Consider exclusion and elections under § 108. (See Reg. § 1.1017-1.)	_____	_____	_____
.2) Consider Form 982.	_____	_____	_____
218) Determine if there have been any distributions of appreciated property to shareholders requiring recognition of gain by the corporation (§ 311).	_____	_____	_____
219) Determine whether gain is required to be recognized in connection with a distribution of stock or securities in connection with an acquisition under § 355(e).	_____	_____	_____
220) Determine whether loss on disposition of stock of consolidated subsidiary is deductible. (See Temp. Reg. §§ 1.337(d)-2T, 1.1502-20T, 1.1502-32T, and 1.1502-35T)	_____	_____	_____
221) Determine if securities held by the corporation became worthless during the year. Note that substantial worthlessness of short sale property is a gain recognition event.	_____	_____	_____
222) If worthless securities were stock in an affiliated corporation, the deduction may be ordinary under § 165(g)(3), subject to deferral under Reg. § 1.1502-80(c).	_____	_____	_____
223) Inquire if the taxpayer engaged in bartering transactions.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
224) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
225) Consider the mark-to-market rules for “dealers in securities” under § 475 and the related § 481 adjustment.	_____	_____	_____
226) Consider the exclusion from income of cash or rent space reduction received from lessor under a short-term lease of retail space utilized to construct leasehold improvements that will benefit the lessor at termination of lease.	_____	_____	_____
227) Consider the extraterritorial income exclusion on qualified foreign trade income. (Form 8873)	_____	_____	_____
228) Consider the need to file Form 5713, International Boycott Report.	_____	_____	_____
300) DEDUCTIONS			
301) Review the client’s vacation pay policy to determine if a deduction is allowable on the accrual basis.	_____	_____	_____
302) If uniform capitalization rules apply, see Uniform Capitalization Checklist.	_____	_____	_____
303) If long-term contract rules apply, see Long-Term Contract Checklist.	_____	_____	_____
304) For charitable contributions consider:			
.1) If all contributions are to qualified charitable organizations.	_____	_____	_____
.2) That certain contributions to organizations conducting lobbying activities related to the client’s trade or business are not deductible.	_____	_____	_____
.3) Reduction of contribution deduction due to value of college athletic tickets or token benefits.	_____	_____	_____
.4) Charitable contribution deduction limitation and record any carryover amounts.	_____	_____	_____
.5) If a carryforward deduction is claimed, that a supporting schedule is attached to the return.	_____	_____	_____
.6) If adequate contemporaneous documentation was obtained for contributions of \$250 or more.	_____	_____	_____
.7) Limitation related to contributions of appreciated ordinary income property.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.8) Increased deduction for contributions of inventory.	_____	_____	_____
.9) That costs of contributed property held for sale in the course of a trade or business that are incurred in the year of contribution are treated as part of cost of goods sold for such year, not a charitable contribution subject to the related rules and limitations.	_____	_____	_____
.10) Deduction for more than cost of appreciated capital gains property.	_____	_____	_____
.11) That minutes document authorization before year-end for accrued charitable contributions, and that contributions are paid by the 15th day of the 3rd month after the end of the tax year. An election statement and a certified copy of the minutes must be attached to the return.	_____	_____	_____
.12) If Form 8283 is required for other than cash charitable donations. Note stiffer substantiation and appraisal requirements. (AJCA 2004)	_____	_____	_____
.13) Denial of charitable contribution deduction for transfers associated with split-dollar insurance arrangements.	_____	_____	_____
.14) Enhanced deduction for computer technology and equipment. (WFTRA 2004)	_____	_____	_____
.15) Enhanced deduction for donation of patents and other intellectual property. (AJCA 2004)	_____	_____	_____
305) Inquire whether the corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method and note limitation on deductibility of certain non-employee travel expenses. (See Rev. Proc. 2003-80; see also Rev. Proc. 2004-29, regarding the ability to use statistical sampling for meals and entertainment expenses that are not subject to the 50% limitation.)	_____	_____	_____
306) Determine if professional fees and/or employee salaries require capitalization.	_____	_____	_____
307) Limit deductions for meals and entertainment to allowable percentage. Consider exceptions, including employer-provided meals. Note limitations for certain expenses in the case of specified individuals. (AJCA 2004)	_____	_____	_____
308) Determine the deductibility of club dues.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
309) Determine that certain lobbying expenses are not deducted (note exceptions).	_____	_____	_____
310) Inquire if dues include nondeductible lobbying expenses.	_____	_____	_____
311) Officers and shareholders:			
.1) Determine the ownership of officers' life insurance policies and the proper treatment of related expenses.	_____	_____	_____
.2) Determine split-dollar insurance treatment. (See Reg. § 1.61-22)	_____	_____	_____
.3) Determine limitation on losses during the year between related corporations/shareholders or other related parties under § 267(a)(1).	_____	_____	_____
.4) If there were any accruals of interest, compensation or other expenses payable to a cash-basis payee who owns directly or indirectly more than 50% of the corporation's stock, determine that for tax purposes the deduction is deferred until the year in which it is includible in the income of the shareholder.	_____	_____	_____
.5) If the corporation is a PSC with a fiscal year end and § 280H (regarding Allowable Applicable Amounts) applies, determine the amount, including carryover, to be deducted in the current year. Complete Schedule H (Form 1120) to figure the required minimum distribution and the maximum deductible amount—attach to the return if the minimum distribution requirements are not met.	_____	_____	_____
.6) Consider whether there is a potential unreasonable compensation issue. (See Reg. § 1.162-8.)	_____	_____	_____
.7) Review documentation of shareholder loans.	_____	_____	_____
.8) Complete Schedule E (Form 1120), if required.	_____	_____	_____
312) Consider limitation of deduction for publicly-held companies for executive compensation in excess of \$1 million unless qualifying performance-based program was in effect.	_____	_____	_____
313) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
314) Determine if there are nondeductible payments made under golden parachute agreements.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
315) Determine if compensation deductions are allowable and whether amounts must be included in recipient's Form W-2 with respect to:			
.1) Current or past transfers of property that are no longer subject to a substantial risk of forfeiture (§ 83).	_____	_____	_____
.2) Current transfer of property for which a § 83(b) election is made.	_____	_____	_____
.3) Disqualifying dispositions of stock under incentive stock options (§ 422). Note income tax withholding, FICA and FUTA exclusions. (AJCA 2004)	_____	_____	_____
.4) Employee stock purchase plans (§ 423). Note income tax withholding, FICA and FUTA exclusions. (AJCA 2004)	_____	_____	_____
.5) Exercise of nonqualified options for stock without a readily obtainable fair market value.	_____	_____	_____
316) Determine that the specific write-off method and/or non-accrual experience method is used for bad debts for entities other than financial institutions.	_____	_____	_____
317) Review partially worthless debt for write-off under Reg. § 1.166-3.	_____	_____	_____
318) Consider bad debt reserve method for financial institutions.	_____	_____	_____
319) Review increases or decreases in reserve accounts for potential book-tax adjustments.	_____	_____	_____
320) If client maintains a profit-sharing or stock bonus plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	_____	_____	_____
321) Determine proper treatment of costs incurred to acquire, create or enhance intangible assets. (See Rev. Proc. 2004-33 and final Regs. §§ 1.263(a)-4, 1.263(a)-5 and 1.167(a)-36, T.D. 9107.)	_____	_____	_____
322) Determine if inventory write-down for book purposes should be adjusted for tax purposes.	_____	_____	_____
323) Determine proper tax treatment for long-term lease agreements where the lease provides for deferred payments or increasing payments. (See Reg. § 467.)	_____	_____	_____
324) Review penalties paid or accrued for deductibility.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
325) Interest considerations:			
.1) Treat amortizable bond premiums (for bonds acquired after 1987) as an offset to interest income. Taxpayer must elect to amortize premium on taxable bonds.	_____	_____	_____
.2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current or former beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. Note phase-in rules and additional limitations for new or materially changed contracts issued after June 8, 1997.	_____	_____	_____
.3) Determine that proper allocation of interest expense has been made if the proceeds of a loan were used for more than one purpose.	_____	_____	_____
.4) Determine that the proper classification has been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.).	_____	_____	_____
.5) Determine if there is an allowable interest deduction related to deferred compensation agreements.	_____	_____	_____
.6) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
.7) Capitalize interest and carrying charges on straddles (§ 263(g)).	_____	_____	_____
.8) Determine if any interest is nondeductible on disqualified debt instruments under § 163(l).	_____	_____	_____
326) Consider limitations on deducting expenses related to federally tax-exempt income. (See Rev. Rul. 2004-47.)	_____	_____	_____
327) Consider option to deduct current year qualifying disaster losses on preceding year tax return by filing an amended return.	_____	_____	_____
328) Determine that retirement plan contributions have been calculated using the eligible compensation limit and obtain a listing of the amounts and payments.	_____	_____	_____
329) Determine if deductions should be reduced by credits claimed.	_____	_____	_____
330) Determine proper treatment of environmental clean-up expenses. Note expense election under § 198 and Rev. Rul. 2004-18.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
331) Consider § 266 election for capitalization of carrying charges (interest, taxes, etc.) on unproductive property.	_____	_____	_____
332) Consider deductibility of product liability expenses under the "single entity" approach in consolidated returns.	_____	_____	_____
333) Determine casualty loss limit.	_____	_____	_____
334) For accrual-basis taxpayers, determine whether state taxes are properly deducted. (See, e.g., Rev. Rul. 2003-90.)	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) For assets placed in service during the current year:			
.1) Consider additional first year depreciation allowance of:			
(a) 50% of adjusted basis of "50-percent bonus depreciation property" placed in service before January 1, 2005. (JGTRRA 2003)	_____	_____	_____
(b) 30% of adjusted basis for 50% bonus depreciation property placed in service before January 1, 2005. Note special election must be made on tax return. (JGTRRA 2003)	_____	_____	_____
.2) Consider election out of bonus depreciation.	_____	_____	_____
.3) Consider § 179 election to expense qualifying assets.	_____	_____	_____
.4) Consider "off-the-shelf" software as eligible for §179 election for tax years beginning after 2002 and ending before 2006. (JGTRRA 2003)	_____	_____	_____
.5) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property.	_____	_____	_____
.6) Determine depreciation of property received in a like-kind exchange or involuntary conversion. (Reg. § 1.168(i)-6T for transactions occurring after February 27, 2004 and Notice 2000-4 for transactions occurring prior to this date.)	_____	_____	_____
.7) Determine the depreciable basis of each asset.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.8) Determine the property class, recovery period and depreciation method for each asset. Note new limitations on property qualifying for income forecast method and designated lives of rent-to-own property.	_____	_____	_____
.9) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.10) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period, regardless of the lease period.	_____	_____	_____
.11) Determine if leasehold improvements is "qualified leasehold improvement property" or restaurant property for use of 15-year recovery period for property placed in service after October 22, 2004 and before 2006. (AJCA 2004)	_____	_____	_____
.12) Consider 36-month amortization rules for software.	_____	_____	_____
.13) Consider reduced depreciable lives for real estate improvement and special use structures.	_____	_____	_____
.14) Consider cost segregation analysis for building additions (<i>Hospital Corporation of America</i> , 109 TC 21 (1997); and <i>Brookshire Brothers</i> , 320 F.3d 507 (5 th Cir. 2003)).	_____	_____	_____
.15) Consider electing the Alternative Depreciation System (straight-line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.16) Consider electing the 150% DB method over the recovery periods applicable to the regular tax for tangible personal property otherwise qualifying for the 200% DB method (RRA 1998).	_____	_____	_____
.17) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____
.18) If property is leased to a tax-exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.19) Consider depreciation limitations for Industrial Development Bond financed property and certified historic structures for which a tax credit was taken.	_____	_____	_____
.20) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.21) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.22) Determine if interest is payable under look-back method where income forecast method is used. Note interest calculation change.	_____	_____	_____
.23) Consider modifications to the income forecast method of depreciation for property placed in service after October 22, 2004 as it relates to “participations and residuals.” (AJCA 2004)	_____	_____	_____
.24) Consider election under § 181(a)(2) to deduct cost of production in the year incurred for qualified film and television productions for costs incurred after October 22, 2004 and before January 1, 2009. (AJCA 2004)	_____	_____	_____
.25) Consider accelerated depreciation for qualifying property located on Indian reservations.	_____	_____	_____
.26) Determine if New York Liberty Zone or NYC benefits and incentives are applicable.	_____	_____	_____
.27) Consider bonus depreciation on adjusted basis of qualified property acquired by taxpayer in a § 1031 like-kind exchange or a § 1033 involuntary conversion. (Prop. Reg. § 1.168-1(f)(5))	_____	_____	_____
402) Consider filing amended returns under Reg. § 1.168(k)-IT(g)(4)(ii), IRS Notice 2003-45, and Rev. Proc. 2003-50.	_____	_____	_____
403) Determine that amortizable items, including goodwill, are written off over the correct periods.	_____	_____	_____
404) Consider the provisions of Rev. Proc. 2002-54 to rectify prior-year claims of less than allowable depreciation or amortization.	_____	_____	_____
405) Determine if leased property/equipment should be capitalized.	_____	_____	_____
406) Consider anti-churning rules.	_____	_____	_____
407) For listed property (e.g., cellular phones, business vehicles, computers, airplanes, boats):	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.1) For business vehicles, consider the maximum deduction allowable under the luxury auto rules. Note exceptions for clean burning, electric and vehicles with GVW of more than 6,000 lbs. and qualified non-personal use trucks and vans placed in service after July 6, 2003. (Reg. 1.280 F-6(c)(3)(iii) Note first-year dollar limitations. (Rev. Proc. 2004-20, Tables 1 to 9)	_____	_____	_____
.2) For business vehicles purchased after October 22, 2004, consider the new expensing limitations for sports utility vehicles rated at 14,000 lbs. gross vehicle weight or less. (AJCA 2004)	_____	_____	_____
.3) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.4) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____
.5) Inquire if the individual has kept the required records indicating the business and personal use of property. Note certain travel between home and temporary work locations is considered business use.	_____	_____	_____
.6) Determine recapture if the business usage has declined to 50% or less.	_____	_____	_____
408) Form 4562, if required:			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete all questions regarding personal use of listed property. Also applies to standard mileage rate autos.	_____	_____	_____
.3) If costs were incurred during the current year, determine that all amortizable items are separately stated and the proper code section cited.	_____	_____	_____
409) Consider state depreciation, if different.	_____	_____	_____
410) Consider federal and state AMT depreciation. Note depreciable lives of tangible personal property placed in service after 1998 are the same for regular and AMT purposes. Note also that the first year 30% and 50% depreciation under the JGTRRA 2003 applies for AMT purposes.	_____	_____	_____
411) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
412) Report depreciation recapture and related investment credit recapture if taxpayer converted depreciable business assets to non-business personal assets.	_____	_____	_____
413) Determine depreciation allowable for property after “use-change.” (See final Reg. § 1.168(i)-4, T.D. 9132)	_____	_____	_____
414) Consider Rev. Proc. 2004-11 for claiming depreciation after disposal of an asset.	_____	_____	_____
500) TAX COMPUTATIONS AND CREDITS			
501) Compute regular tax.	_____	_____	_____
502) If this is a consolidated tax return:			
.1) Attach Form 851.	_____	_____	_____
.2) Attach Form 1122 (only for consolidated group’s first year).	_____	_____	_____
.3) Review consolidated journal entries and determine that inter-company eliminations and restorations are calculated correctly.	_____	_____	_____
.4) Attach election to allocate tax liability of group.	_____	_____	_____
503) If taxpayer is part of a controlled group, consider special allocation rules under §§ 1561 and 1563. Attach apportionment schedule.	_____	_____	_____
504) Alternative minimum tax (small corporations are exempt):			
.1) Consider adjustments to regular taxable income or loss such as:			
(a) Depreciation on property placed in service after 1986 (or July 31, 1986, if election was made) must be computed using longer lives and slower method. (Rev. Proc. 87-57)	_____	_____	_____
(b) Lives for assets placed in service after 1998 are the same for regular and AMT purposes.	_____	_____	_____
(c) Mining exploration and development costs must be capitalized and amortized over a ten-year period.	_____	_____	_____
(d) Gains/losses on sales and exchanges are to be recomputed using AMT adjusted basis.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(e) Income from long-term contracts entered into after February 28, 1986, must be computed using the percentage-of-completion method of accounting. (Note exception for home construction contracts.)	_____	_____	_____
(f) Income from post-February 28, 1986, disposition of real or personal property not held for sale in the ordinary course of business shall be determined without regard to the installment method, except in cases where an election is made to pay interest on the tax deferred by the installment method.	_____	_____	_____
(g) All gains and losses from tax-shelter farm activities that are not passive activities are to be recomputed by taking into account any AMT adjustments and tax preference items (PSCs only).	_____	_____	_____
(h) All passive activity gains and losses are to be recomputed by taking into account any AMT adjustments, tax preference items, and AMT prior year unallowed losses (closely-held corporations and PSCs only).	_____	_____	_____
.2) Consider tax preference items to be added such as:			
(a) Tax-exempt interest from private activity bonds issued after August 7, 1986.	_____	_____	_____
(b) Excess intangible drilling costs. Consider election to amortize over 60 months and the § 57(a)(2)(E) exclusion.	_____	_____	_____
(c) Accelerated depreciation on real property placed in service before 1987.	_____	_____	_____
(d) Accelerated depreciation on leased personal property placed in service prior to 1987 (PHCs only).	_____	_____	_____
.3) Adjusted current earnings (ACE) adjustment (§ 56(g)) must be calculated taking into account adjustments such as:			
(a) Depreciation for property placed in service prior to 1994.	_____	_____	_____
(b) E&P inclusion items:			
i) Net tax-exempt interest income.	_____	_____	_____
ii) Net death benefits from life insurance contracts.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
iii) Other.	_____	_____	_____
(c) E&P disallowed items:			
i) Dividends-received deduction (70%)	_____	_____	_____
ii) Other.	_____	_____	_____
(d) Other E&P adjustments:			
i) LIFO.	_____	_____	_____
ii) Amortization of organization expense.	_____	_____	_____
iii) Installment sales.	_____	_____	_____
iv) Other.	_____	_____	_____
.4) Use AMT net operating loss (NOL) deduction in place of the regular NOL deduction. Post-1986 AMT NOL deduction is available only to the extent of 90% of pre-NOL AMTI.	_____	_____	_____
.5) Consider foreign tax credit.	_____	_____	_____
.6) Consider AMT credit carryover, including limitations.	_____	_____	_____
.7) Consider potential relief under AMT Tax Benefit Rule (§ 59(g)).	_____	_____	_____
505) Consider election to determine corporate tax on certain international shipping activities using per ton rate. (§§ 1352-1359) (AJCA 2004)	_____	_____	_____
506) Consider § 1341 claim of right where an item of income was included in gross income in a previous year and a deduction for such item is allowable this year.	_____	_____	_____
507) Consider tax credits such as:			
.1) Foreign Tax Credit - Corporations. (Form 1118) Note changes to treatment of 10/50 company dividends. (Notice 2003-5)	_____	_____	_____
.2) Investment tax credit (rehabilitation, transition, energy and reforestation). (Form 3468)	_____	_____	_____
.3) Credit for increasing research activities through December 31, 2005. (Form 6765) (WFTRA 2004)	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) Enhanced oil recovery credit. (Form 8830)	_____	_____	_____
.5) Credit for federal tax paid on fuels. (Form 4136)	_____	_____	_____
.6) Low-income housing credit. (Form 8586)	_____	_____	_____
.7) Disabled access credit. (Form 8826)	_____	_____	_____
.8) Qualified electric vehicle credit. (Form 8834) (WFTRA 2004)	_____	_____	_____
.9) Renewable electricity production credit. (Form 8835) (WFTRA 2004)	_____	_____	_____
.10) Credit for employer social security and Medicare taxes paid on certain employee tips. (Form 8846)	_____	_____	_____
.11) Indian Employment Credit. (Form 8845) (WFTRA 2004)	_____	_____	_____
.12) Credit for contributions to selected community development corporations. (Form 8847)	_____	_____	_____
.13) Credit for alcohol used as a fuel. (Form 6478)	_____	_____	_____
.14) For fiscal year taxpayers, credit for biodiesel fuel produced, sold or used after 2004. (AJCA 2004)	_____	_____	_____
.15) Work Opportunity Credit for certified eligible employees who begin work before January 1, 2006. (Form 5884) (WFTRA 2004)	_____	_____	_____
.16) The credit for qualified clinical testing expenses (Orphan Drug Credit) and associated carrybacks and carryovers. (Form 8820)	_____	_____	_____
.17) Welfare-to-work tax credit for certified eligible employees who begin work before January 1, 2006. (Form 8861) (WFTRA 2004)	_____	_____	_____
.18) Renewal community employment credit for qualifying wages paid after December 31, 2001 and before January 1, 2010. Form 8844) (§§ 1396 and 1400H)	_____	_____	_____
.19) New markets tax credit for qualifying investments in a "Community Development Entity." (Form 8874) (§ 45D)	_____	_____	_____
.20) Credit for Employer-Provided Child Care Expenses. (Form 8882) (§ 45F)	_____	_____	_____
.21) Credit for Small Employer Pension Plan Start-up Costs (Form 8881) (§ 45E).	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
508) Determine if the corporation is a personal holding company.			
.1) Prepare Schedule PH.	_____	_____	_____
.2) Consider consent dividends.	_____	_____	_____
509) Determine if the corporation is a personal service corporation subject to tax without benefit of graduated rates.	_____	_____	_____
510) Consider whether accumulated earnings tax exposure is present. Note exceptions.	_____	_____	_____
511) Confirm the amounts and dates of any federal, state and local estimated tax deposits for the year, prior year overpayments applied, backup withholding and extension payments. Note estimated tax overpayments may be redesignated as employment tax deposits (Announcement 2001-112).	_____	_____	_____
512) If estimated tax deposits are less than 100% of the tax liability, including alternative minimum tax, consider filing Form 2220.	_____	_____	_____
513) Consider filing Form 4466 for a quick refund of overpaid estimated tax.	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Compare taxable income to projections for reasonableness.	_____	_____	_____
602) Consider estimated tax payments, alternate large corporation estimate payment calculation and electronic filing requirements. Note prior year safe harbor does not apply if prior year return was not for twelve months, shows no tax, or if no prior-year return was filed.	_____	_____	_____
603) Consider election to use one of the two optional time periods to determine annualized income for purposes of paying estimated taxes. Form 8842 must be filed by the 15th day of the fourth month of the tax year for which the election is to apply.	_____	_____	_____
604) If the corporation is party to an applicable asset acquisition (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met. (Form 8594) (Reg. § 1.1060-1)	_____	_____	_____
605) If the corporation has made a qualifying stock purchase, attach Form 8023. Consider the election to treat the purchase as an asset acquisition. (Regs. §§ 1.338-0 through 7, 1.338-10, 1.338(h)(10)-1, 1.338(i)-1, and 1.1060-1).	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
606) Determine if Form 8271 is required for tax shelters.	_____	_____	_____
607) Net Operating Loss (NOL):			
.1) If an NOL deduction is claimed, prepare supporting schedules for regular and AMT carryovers to be attached to the return.	_____	_____	_____
.2) If there is a current year NOL, consider the election to forgo the carryback.	_____	_____	_____
.3) Determine if part of a current NOL is attributable to a specified liability loss, such as product liability (§ 172(b)(1)(C)). Attach statement (Reg. § 1.172-13(c)).	_____	_____	_____
.4) If there is an NOL incurred in the current year or a carryforward deducted in the current year, disclosure is required of any change in ownership.	_____	_____	_____
.5) Consider preparing Form 1139 for carrybacks.	_____	_____	_____
.6) If a net operating loss is anticipated for next year, consider filing Form 1138 to extend time for paying current year's tax.	_____	_____	_____
.7) Consider state differences.	_____	_____	_____
608) Consider elections and statements such as:			
.1) Election to expense or amortize organization costs. Note limitations and longer recovery period. (AJCA 2004)	_____	_____	_____
.2) Election to expense or amortize business start-up costs. Note limitations and longer recovery period. (AJCA 2004)	_____	_____	_____
.3) Cash vs. accrual method of accounting. (Rev. Proc. 2001-10)	_____	_____	_____
.4) Election to expense intangible drilling costs.	_____	_____	_____
.5) § 351 statement for transfers to controlled corporations.	_____	_____	_____
.6) Method for valuation of inventory.	_____	_____	_____
.7) Method of calculating § 263A adjustment.	_____	_____	_____
.8) Change in accounting method or period. (Form 3115 or Form 1128)	_____	_____	_____
.9) Research and experimental costs.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.10) Exception from economic performance for recurring items. Under final regulations, the election for any item(s) incurred for the first time is made by accounting for the item(s) under the recurring item exception on a timely filed tax return.	_____	_____	_____
.11) If this is the first year the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception. (Rev. Proc. 92-28, amplified by Rev. Proc. 94-32)	_____	_____	_____
.12) Section 265 (expenses and interest related to tax-exempt income) allocation statement.	_____	_____	_____
.13) Tax Shelter disclosure under Reg. § 1.6011-4 (Form 8886) if the corporation participates directly or indirectly in listed transactions. (T.D. 9046, 2/28/03) (AJCA 2004)	_____	_____	_____
609) Determine if expenditures were incurred that are eligible for the Disabled Access Credit (Form 8826). If the taxpayer does not qualify for the credit or has expenditures in excess of the credit limit, consider making § 190 election to expense the costs.	_____	_____	_____
610) Consider applicable reporting requirements, including information reporting Forms 1099, for the following corporate liquidation and reorganization transactions:	_____	_____	_____
.1) Reorganizations (Disclosure statement under Reg. § 1.368-3).	_____	_____	_____
.2) Liquidation (Reg. § 1.332-6).	_____	_____	_____
.3) Corporate separations.	_____	_____	_____
.4) Corporate acquisitions.	_____	_____	_____
.5) Corporate inversion transactions.	_____	_____	_____
611) Reconcile net income per books to taxable income per return, including review of prior year's Schedule M-1 adjustments.	_____	_____	_____
612) If total assets exceed \$10 million, complete Schedule M-3.	_____	_____	_____
613) Cross reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____
.2) Schedule L total ending assets to total assets reported on Form 1120, page 1.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Schedule M-2 beginning and ending retained earnings to Schedule L.	_____	_____	_____
.4) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances.	_____	_____	_____
.5) Carryforward items to carryover schedule/prior year returns.	_____	_____	_____
614) Cross reference line items to supporting schedules within the return.	_____	_____	_____
615) Consider § 6662 accuracy-related penalty.			
.1) Determine if disclosure is adequate. (Rev. Proc. 2002-66)	_____	_____	_____
.2) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
616) Consider filing information returns related to ownership in foreign partnerships and corporations (Form 5471).	_____	_____	_____
617) Consider filing requirements of foreign-owned U.S. corporations. (Form 5472)	_____	_____	_____
618) Determine if Form TD F 90-22.1 is needed to report foreign financial accounts.	_____	_____	_____
619) Determine if corporation:			
.1) Created a foreign trust	_____	_____	_____
.2) Transferred property to a foreign trust	_____	_____	_____
.3) Received distributions, directly or indirectly, from a foreign trust (§ 6048).	_____	_____	_____
.4) Received loans, unless with arm's-length terms, from a foreign trust.	_____	_____	_____
.5) Is a beneficiary of a foreign trust and transferred property to a foreign grantor of the trust.	_____	_____	_____
620) Consider other foreign reporting requirements.	_____	_____	_____
621) Prepare state and local tax returns (see Nexus Practice Guide) and review each state's modification requirements. Compile apportionment data.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
Consider the following:			
.1) State tax adjustments.	_____	_____	_____
.2) State tax credits.	_____	_____	_____
.3) Taxpayer doing business in new states.	_____	_____	_____
.4) Unitary or consolidated/combined filing requirements or opportunities.	_____	_____	_____
.5) Allocation of investment income.	_____	_____	_____
.6) Carryback claims.	_____	_____	_____
.7) Applicability of throwback rule for non-taxed out of state sales.	_____	_____	_____
.8) Estimated taxes. (EFTPS)	_____	_____	_____
.9) If appropriate, trace sales from apportionment factor to sales tax returns.	_____	_____	_____
.10) Appropriate treatment of federal consolidated return items not reflected in separate company state filings.	_____	_____	_____
.11) Non-business income and deduction items subject to direct allocation.	_____	_____	_____
622) Extended returns:			
.1) Verify that payments per extensions agree with tax returns.	_____	_____	_____
.2) If extension payment did not cover the full tax for the year, consider:			
(a) Adding interest to balance due.	_____	_____	_____
(b) Adding a statement disclosing reasonable cause to avoid the failure to pay penalty (§ 6651(a)(2)).	_____	_____	_____
(c) Installment agreement with IRS for payment of tax.	_____	_____	_____
623) Determine if there have been non-dividend distributions. (Form 5452)	_____	_____	_____
624) Information returns:			
.1) Inquire if taxpayer has complied with electronic filing requirements for Forms 1099 and W-2.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Inquire whether the corporation has filed all required Forms 1098, 1099 and 1042 and whether the value of the personal use of employer property, expense reimbursements under non-accountable plans, and § 401(k) deferred compensation information have been included in employees' Forms W-2. Note reporting requirements of certain payments made to attorneys.	_____	_____	_____
.3) Inquire if additional items subject to employer FICA, such as § 401(k) deferrals, vested non-qualified deferred compensation, employer-provided excess group-term life insurance, all cash tips, etc., have been reported.	_____	_____	_____
.4) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported.	_____	_____	_____
.5) Inquire whether club dues, spousal travel, employee stock options, restricted property (§ 83(b) election), etc., are treated as compensation and included on employee's Form W-2.	_____	_____	_____
625) Inquire if employment taxes were timely deposited. (EFTPS)	_____	_____	_____
626) Inquire if the corporate minute book has been updated.	_____	_____	_____
627) Advise the client that any unpaid retirement plan contribution for the year must be made before the due date of the return, including extension. Note that contributions to defined benefit plans may have earlier due dates.	_____	_____	_____
628) Inquire if the required Forms 5500 have been filed for retirement plans covered by this period.	_____	_____	_____
629) Inquire if the required Forms 5500 have been filed for welfare benefit plans (e.g., medical benefit plans, life insurance, disability or death benefit plans that have more than 100 participants).	_____	_____	_____
630) Determine that related party transactions are properly reported on all available returns.	_____	_____	_____
631) With respect to related party transactions, determine that the taxpayer has adequate contemporaneous documentation to substantiate the arms-length pricing of the transaction. Note potential for § 6662 penalties.	_____	_____	_____
632) Determine that salary and other transactions between the corporation and officers/shareholders are properly recorded on all available returns.	_____	_____	_____

C CORPORATION INCOME TAX RETURN CHECKLIST
2004 – FORM 1120

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
633) If the corporation is a member of a partnership, consider § 465 at-risk and/or § 704(d) basis rules.	_____	_____	_____
634) If corporation sold partnership interest during the year, determine:			
.1) That the appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	_____	_____
.2) That the required statement under Reg. § 1.751-1(a)(3) is attached if partnership had § 751(a) assets.	_____	_____	_____
635) If corporation acquired partnership interest during the year, determine:			
.1) That the appropriate information was given to the partnership.	_____	_____	_____
.2) Inquire if § 754 election is in effect.	_____	_____	_____
636) If a corporation receives a property distribution from a partnership that does not have a § 754 election in effect, consider making a § 732(d) election.	_____	_____	_____
637) If a corporation receives a distribution of property from a partnership within two years of receiving a partnership interest, consider the election under § 732(d).	_____	_____	_____
638) Consider informing client of requirements to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____
639) Consider whether an S or QSSS election should be made.	_____	_____	_____
640) Note syndication costs treated as nondeductible expense or distribution in the permanent file for eventual write-off on conclusion of partnership ownership.	_____	_____	_____
641) Note tax planning/additional service suggestions. See Client Review for Additional Services.	_____	_____	_____

COMMENTS OR EXPLANATIONS

MINI-CHECKLIST
S CORPORATION INCOME TAX RETURN
2004 - FORM 1120S

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
GENERAL INFORMATION					
1. Consider obtaining signed engagement letter/ privilege engagement letter/ power of attorney.	_____	_____	Sales or exchanges between the corporation and shareholder or other related parties	_____	_____
2. Review and update the corporation's and shareholders' names and addresses, FYE, and business code.	_____	_____	At-risk rules	_____	_____
3. Review permanent file, prior year returns, workpapers, correspondence and audit results.	_____	_____	Discharge of indebtedness	_____	_____
4. Review pro forma/organizer accuracy.	_____	_____	Worthless securities	_____	_____
5. Consider below-market-rate loan rules.	_____	_____	Like-kind exchanges	_____	_____
6. Determine officers' compensation.	_____	_____	Deferred income/expenses	_____	_____
7. If fiscal year retained, determine that Forms 8716 and 8752 are timely filed.	_____	_____	Economic accrual of rent	_____	_____
8. Review methods of accounting.	_____	_____	Lease inclusion for luxury autos	_____	_____
9. Consider recurring item exception election for accrual method taxpayers.	_____	_____	Advance payments (Rev. Proc. 71-21 and 2004-34)	_____	_____
10. Update carryforward schedules including effect of prior period tax audits.	_____	_____	6. Consider separate reporting of passive activities on K-1 schedules (Passive Activity Checklist.)	_____	_____
11. Review financial statements and footnotes for relevant information.	_____	_____	DEDUCTIONS		
12. Include QSub activity.	_____	_____	1. Consider uniform capitalization rules. (Uniform Capitalization Checklist)	_____	_____
13. Consider filing power of attorney in addition to "check-box" option.	_____	_____	2. Determine deductibility of vacation pay accrual.	_____	_____
14. Consider if disaster relief provisions apply.	_____	_____	3. Determine applicability of 2½ month deferred comp rule for nonshareholder employees and independent contractors.	_____	_____
15. Consider state and local tax filing requirements and report necessary shareholder information.	_____	_____	4. Determine that fringe benefits for more than 2% shareholders are properly reported on Form W-2 and deducted.	_____	_____
INCOME			5. Inquire if travel and entertainment expenses are substantiated by adequate records. (Rev Proc. 2003- 80)	_____	_____
1. Compare portfolio income with prior year.	_____	_____	6. Limit meals and entertainment to allowable percentage.	_____	_____
2. Segregate qualified dividends. (JGTRRA 2003)	_____	_____	7. Consider new limit on deduction for entertainment provided to officers, directors and 10% or more owners. (AJCA 2004)	_____	_____
3. Include only trade or business income on page 1, Form 1120S.	_____	_____	8. Consider the following for officers and shareholders:		
4. Determine that dispositions of property are reported properly.	_____	_____	Nondeductible officers' life insurance. (Other Adjustment Account)	_____	_____
5. Consider the following:			Limitation on losses, or accruals between related parties.	_____	_____
Ordinary income on market discount bonds and deferral of related interest expense	_____	_____	Inadequate compensation.	_____	_____
Installment sales and related interest charges on deferred tax (Installment Sales Checklist) (AJCA 2004)	_____	_____	Split-dollar insurance treatment (Reg. § 1.61-22)	_____	_____
			9. Limit interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____
			10. Limit retirement contributions to allowable amount.	_____	_____
			11. Properly report expenses allocable to portfolio income on Schedules K and K-1 and not deducted on page 1, 1120S.	_____	_____

MINI-CHECKLIST

S CORPORATION INCOME TAX RETURN

2004 - FORM 1120S

	<u>Done</u>	<u>N/A</u>		<u>Done</u>	<u>N/A</u>
12. Consider limitations on deductibility of:			Determine proper reporting if distributions exceed accumulated adjustment account.		
Bad debts	___	___			
Club dues	___	___	Consider electing distributions out of accumulated earnings and profits (Form 5452 required).	___	___
Lobbying expense/Association dues	___	___			
Casualty loss	___	___	Determine that gains are recognized and allocated to each shareholder for distribution of appreciated property.	___	___
Stock option compensation	___	___			
State taxes	___	___			
Organizational expenses (AJCA 2004)	___	___	If Corporation is bankrupt or insolvent, determine that basis is not increased for cancellation of debt that is not treated as an income item.	___	___
Start-up expenditures (AJCA 2004)	___	___			
DEPRECIATION/AMORTIZATION					
1. Consider the following:			3. Consider Shareholder Basis Practice Guide.	___	___
50% additional first-year depreciation (JGTRRA 2003)	___	___	K-1 INFORMATION		
30% additional first-year depreciation election for 50% bonus depreciation property (JGTRRA 2003)	___	___	1. Verify correctness of shareholders' names, addresses and identification numbers.	___	___
Election out of bonus depreciation	___	___	2. Properly reflect shareholders' shares of all items that affect tax liability. Note:		
§ 179 election (JGTRRA 2003 and AJCA 2004)	___	___	Reporting requirements for dividends (JGTRRA 2003)	___	___
Methods and lives	___	___	New rules for charitable donations of patents and other intellectual property (AJCA 2004)	___	___
Listed property	___	___	3. Segregate and report tax preference and adjustment items.	___	___
Capitalization of leased property	___	___	4. Determine that information relating to interest expense on debt-financed distributions has been provided. Consider optional allocation method under Notice 89-35.	___	___
Qualified leasehold improvement property (AJCA 2004)	___	___			
Amortization of goodwill and other intangibles (AJCA 2004)	___	___	OTHER		
2. Compute AMT depreciation.	___	___	1. Consider elections and statements such as:		
3. Compute state depreciation, if different.	___	___	Cash vs. accrual accounting method	___	___
TAX COMPUTATION AND CREDITS			Amortize organization expenses (AJCA 2004)	___	___
1. Consider the following:			Expense intangible drilling costs	___	___
Tax on excess net passive income	___	___	Method of valuation of inventory	___	___
Tax on built-in gain	___	___	Ratable accrual of real property taxes (first year only)	___	___
Credit recapture tax	___	___	Amortize business start-up cost (AJCA 2004)	___	___
Estimated federal and state tax payments	___	___	Research and experimental cost	___	___
Tax credits (WFTRA 2004 and AJCA 2004))	___	___	Exception from economic performance for recurring items (first year only)	___	___
SHAREHOLDER INFORMATION			2. Consider increased reporting requirements for noncash charitable contributions. (AJCA 2004)	___	___
1. Shareholder allocation/limitation:			3. Consider risk of accuracy-related penalty. (§ 6662)	___	___
Determine that income, deductions, and credits are allocated to the shareholders on a per-share, per-day basis.	___	___	4. Inquire whether all required information returns have been filed.	___	___
If complete termination occurred, consider specific cut off.	___	___	5. Note tax planning/additional service suggestions.	___	___
Attach shareholder consent and statement of election. (Prop. Reg. § 1.1377-1)	___	___			
2. Shareholder distribution/basis computations:					
Determine that equity increases and decreases (Schedule M) are properly segregated among:					
Accumulated adjustment account	___	___			
Other adjustments account	___	___			
Shareholders undistributed PTI	___	___			

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider obtaining signed:			
.1) Engagement letter	_____	_____	_____
.2) Engagement letter for tax advice under the CPA-client privilege provisions of § 7525	_____	_____	_____
.3) Power of attorney	_____	_____	_____
102) Review and update the S corporation and shareholders' names, addresses, fiscal year, incorporation date, business code, identification numbers, and IRS and other tax filing addresses.	_____	_____	_____
103) Review permanent file, prior year returns, workpapers, etc.	_____	_____	_____
104) Review pro forma/organizer for accuracy.	_____	_____	_____
105) Obtain information concerning IRS, state tax audits and/or correspondence.	_____	_____	_____
106) Inquire whether the S corporation has made or received any below-market-rate loans. If so, determine imputed interest consequences.	_____	_____	_____
107) Review for adequate interest on new or modified debt instrument.	_____	_____	_____
108) If the corporation has selected an allowable fiscal tax year, determine that Forms 8716 and 8752 have been timely filed.	_____	_____	_____
109) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required. (See Form 3115 instructions and current year's revenue procedures.)	_____	_____	_____
110) If the corporation is on the cash basis, determine if the accrual basis is required.	_____	_____	_____
111) Ascertain officers' compensation and review for reasonableness.	_____	_____	_____
112) Review and update schedules for carryforward items and effect of prior tax audits.	_____	_____	_____
113) Review financial statements and footnotes for relevant information.	_____	_____	_____
114) Review Board minutes.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
115) Consider filing power of attorney in addition to "check-box" option.	_____	_____	_____
116) If the corporation owns a QSub include all activity on the return.	_____	_____	_____
117) Consider if disaster relief provisions apply.	_____	_____	_____
118) Consider state and local tax filing requirements. Furnish necessary information to shareholders. (See Nexus Practice Guide.)	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_____
202) Determine that only trade or business (e.g., not portfolio or rental) income is reported on page 1 of Form 1120S.	_____	_____	_____
203) Segregate qualified dividends. (JGTRRA 2003)	_____	_____	_____
204) Review dispositions of property for holding period and federal, state, AMT bases. Consider nonrecognition, gains, losses and recaptures.	_____	_____	_____
205) Consider the following:			
.1) Wash sales.	_____	_____	_____
.2) Sales or exchanges between the corporation and shareholder.	_____	_____	_____
.3) Worthless securities.	_____	_____	_____
.4) At-risk rules. (Final Regs. §§ 1.465-8 and 1.465-20)	_____	_____	_____
.5) Installment sales (see Temp. Regs. §§ 1.338(h)(10)-1T(d)(9) and AJCA 2004) and related interest charged on deferred tax. See Installment Sales Checklist.	_____	_____	_____
.6) Economic accrual of rent.	_____	_____	_____
.7) Discharge of indebtedness.	_____	_____	_____
.8) Tax-exempt income and related interest expense disallowance.	_____	_____	_____
.9) Like-kind exchanges and related party exchanges (Form 8824).	_____	_____	_____
.10) Straddle rules and § 1092 election. (AJCA 2004)	_____	_____	_____
.11) Gains on constructive sales of appreciated financial position.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.12) Involuntary conversions of livestock. (AJCA 2004)	_____	_____	_____
206) Determine that deferred income and expenses for book purposes are properly reported for tax purposes.	_____	_____	_____
207) If accrual basis taxpayer, consider deferral of state or local income or franchise tax refunds. (Rev. Rul. 2003-3)	_____	_____	_____
208) If the S corporation has passive income or losses from one or more activities, they may be required to be separately reported on the Schedule K-1. See Passive Activity Checklist.	_____	_____	_____
209) Consider appropriate income inclusion amount for leased property. See Vehicle Related Guides.	_____	_____	_____
210) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
211) Consider mark to market rules for "dealers in securities" under § 475 and the related § 481 adjustment.	_____	_____	_____
212) Consider the extraterritorial income exclusion on qualified foreign trade income. (Form 8873)	_____	_____	_____
213) Determine proper treatment of certain advance payments. (Rev. Proc. 71-21 and 2004-34)	_____	_____	_____
300) DEDUCTIONS			
301) Identify any nondeductible vacation pay accrual.	_____	_____	_____
302) Consider the uniform capitalization rules. (See Uniform Capitalization Checklist.)	_____	_____	_____
303) Determine that fringe benefits for more than 2% shareholders have been reported on the recipient shareholders' W-2s (usually non FICA wages) and claimed as a deduction by the S corporation.	_____	_____	_____
304) Inquire whether the S corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method. (See Rev. Proc. 2003-80.)	_____	_____	_____
305) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions, including employer-provided meals.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
306) Limit deduction for certain entertainment expenses includible in compensation for officers, directors and 10% or more owners. (AJCA 2004)	_____	_____	_____
307) Determine the deductibility of club dues.	_____	_____	_____
308) Determine that expenses allocable to portfolio income have not been deducted on Page 1, Form 1120S.	_____	_____	_____
309) Determine that retirement plan contributions are made timely and within allowable limits.	_____	_____	_____
310) Determine that specific charge off method is used for bad debts.	_____	_____	_____
311) Officers and shareholders:			
.1) Determine the ownership of life insurance policies and the proper treatment of related expenses.	_____	_____	_____
.2) Determine split-dollar insurance treatment. (See Reg. § 1.61-22)	_____	_____	_____
.3) Identify expenses, including interest if applicable, for officers' life insurance which are nondeductible.	_____	_____	_____
.4) Determine limitation on any losses or accruals of expenses during the year between related corporations/shareholders under § 267(a)(1) and 267(a)(2).	_____	_____	_____
.5) Determine if expenses to shareholders (§ 267(e)) or other related parties on the cash basis were paid by corporation's year end.	_____	_____	_____
.6) Consider reasonableness of compensation to shareholders who perform substantial services.	_____	_____	_____
312) Determine if compensation deductions are allowable with respect to qualified and nonqualified stock options.	_____	_____	_____
313) Determine if compensation deductions are allowable if a § 83(b) election is made.	_____	_____	_____
314) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
315) Verify that the proper allocations have been made dividing interest expense among various types of expenditures.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
316) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
317) Consider limitations of deductibility of lobbying expenses/association dues.	_____	_____	_____
318) Consider economic performance requirement and recurring item exceptions.	_____	_____	_____
319) Determine casualty loss limit.	_____	_____	_____
320) Determine passive activity reporting for activities distributed to shareholders.	_____	_____	_____
321) For accrual basis taxpayers, determine proper state tax deduction. (Rev. Rul. 2003-90)	_____	_____	_____
322) Determine proper treatment of costs incurred to acquire or create intangible assets. See Rev. Proc 2004-23 and final Regs. §§ 1.263(a)-4, 1.263(a)-5 and 1.167(a)-3(b) (T.D. 9107).	_____	_____	_____
323) Consider limitations related to certain contributions after June 3, 2004. (AJCA 2004)	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) 50% additional first-year depreciation for property placed in service before January 1, 2005. (JGTRRA 2003)	_____	_____	_____
.2) 30% additional first-year depreciation for 50% bonus depreciation property. Note special election must be made on tax return. (JGTRRA 2003)	_____	_____	_____
.3) Election out of bonus depreciation.	_____	_____	_____
.4) § 179 election, including “off the shelf” software. Note current allowable amount. (JGTRRA 2003 and AJCA 2004)	_____	_____	_____
.5) Consider § 179A election to expense qualifying clean-fuel vehicles. (WFTRA 2004)	_____	_____	_____
.6) Methods and lives.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.7) Limitations relating to listed property. Note exceptions for vehicles with GVW of more than 6,000 lbs. and qualified non-personal use trucks and vans placed in service after July 6, 2003 and before October 23, 2004. (Reg. § 1.280F-6(c)(3)(iii) and see Rev. Proc. 2004-20.)	_____	_____	_____
.8) For business vehicles purchased after October 22, 2004, consider the new limitations for sport utility vehicles rated at 14,000 lbs. gross vehicle weight or less. (AJCA 2004)	_____	_____	_____
.9) Depreciation of property received in a like-kind exchange or involuntary conversion (Reg. § 1.168(i)-6T for transactions occurring after February 27, 2004, and Notice 2000-4 for transactions prior to this date.)	_____	_____	_____
.10) Determine if leased property should be capitalized.	_____	_____	_____
.11) Determine if qualified leasehold improvement property or restaurant property for use of 15-year recovery period for property placed in service after October 22, 2004 and before 2006. (AJCA 2004)	_____	_____	_____
.12) Consider 36-month depreciation rules for software.	_____	_____	_____
.13) Election of 150% DB method for 200% DB method personal property.	_____	_____	_____
.14) Reduced depreciable lives for real estate improvements and special structures.	_____	_____	_____
.15) Separate component analysis for building items. (Hospital Corporation of America, 109 T.C. 21 (1997); and Brookshire Brothers, 320 F. 3d 507, 5 th Cir. 2003)	_____	_____	_____
.16) Consider filing amended returns as appropriate under Reg. § 1.168(k)-1T(g)(4)(ii), Notice 2003-45 and Rev. Proc. 2003-50.	_____	_____	_____
402) Consider AMT depreciation.	_____	_____	_____
403) Determine that amortizable items, including goodwill, are written off over the correct periods. (AJCA 2004)	_____	_____	_____
404) Compute state depreciation, if different.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
500) TAX COMPUTATION AND CREDITS			
501) Consider tax on excess net passive income.	_____	_____	_____
502) Consider tax on built-in gain.	_____	_____	_____
503) Consider credit recapture.	_____	_____	_____
504) Claim current year estimated tax payments, prior year overpayments applied and extension payments.	_____	_____	_____
505) Consider requirement for estimated tax payments. (EFTPS and JGTRRA 2003)	_____	_____	_____
506) Consider tax credits. (WFTRA 2004 and AJCA 2004)	_____	_____	_____
507) If member of a controlled group, attach apportionment schedules.	_____	_____	_____
600) SHAREHOLDER INFORMATION (See final Regs. §§ 1.1366-1 through 5, Regs. 1.1367-1 through 3 and 1.1368-1 through 4.)			
601) Shareholder allocation/limitation:			
.1) Determine that items of income, deductions, credits, etc., are allocated to the shareholders on a per-share, per-day basis.	_____	_____	_____
.2) If stock transfers occurred during the year resulting in a termination of a shareholder's interest, consider allocations based on time of actual occurrence. Attach the affected shareholder's and corporation's statement of election.	_____	_____	_____
602) Shareholder distribution/basis computations:			
.1) Determine that equity increases and decreases (Schedule M-2) are properly segregated between:			
(a) Accumulated adjustment account.	_____	_____	_____
(b) Other adjustments account.	_____	_____	_____
(c) Shareholders' undistributed PTI.	_____	_____	_____
.2) Determine that distributions exceeding accumulated adjustment account for S corporations with earnings and profits from C years are reported (Form 1099-DIV) to shareholders as dividends to the extent of accumulated earnings and profits. Note current year net reductions are disregarded in this computation.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Consider electing distributions out of accumulated earnings and profits (Form 5452 required).	_____	_____	_____
.4) For distributions of appreciated property, determine that gain is recognized and allocated to each shareholder.	_____	_____	_____
.5) If corporation is bankrupt or insolvent, determine that basis is not increased for cancellation of debt that is not treated as an income item.	_____	_____	_____
.6) Consider Shareholder Basis Practice Guide.	_____	_____	_____
.7) Election to take losses and deductions against basis before nondeductible items. (Reg. 1.1367-1G)	_____	_____	_____
.8) Consider suspended losses triggered by a basis increase during post-termination transition period.	_____	_____	_____
.9) Consider distributions from accumulated adjustment account during post-termination period.	_____	_____	_____
.10) Determine that shareholder loans will be treated as economic investment.	_____	_____	_____
700) K-1 INFORMATION			
701) Verify correctness of shareholders' names, addresses and identification numbers.	_____	_____	_____
702) Determine that proper reporting has been provided for all items on Schedule K-1 that affect shareholder's tax liability. Note reporting requirements for different types of ordinary dividends. (JGTRRA 2003)	_____	_____	_____
703) Provide information about nontaxable income and nondeductible expenses to enable shareholders to make adjustments to basis of their stock.	_____	_____	_____
704) Segregate all tax preference and adjustment items and report on the appropriate lines.	_____	_____	_____
705) Determine that information relating to interest expense of debt-financed distributions to shareholders has been provided. (Notice 89-35)	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
800) OTHER REQUIREMENTS			
801) Compare taxable income to projections.	_____	_____	_____
802) Consider elections such as:			
.1) Cash vs. accrual method of accounting.	_____	_____	_____
.2) Amortization of organization expense. (AJCA 2004)	_____	_____	_____
.3) Expense intangible drilling costs.	_____	_____	_____
.4) Method for valuation of inventory.	_____	_____	_____
.5) Method of calculating § 263A adjustment.	_____	_____	_____
.6) Ratable accrual of real property taxes (first year only).	_____	_____	_____
.7) Amortization of business start-up costs. (Reg. § 1.195-1) (AJCA 2004)	_____	_____	_____
.8) Research and experimental cost.	_____	_____	_____
.9) Expensing of environmental remediation costs for expenses incurred after 12/31/03 and before 1/1/06. (WFTRA 2004)	_____	_____	_____
.10) Exception from economic performance for recurring items (first year only).	_____	_____	_____
803) Consider charitable contribution rules, limitations and contemporane- ous receipt requirements. (AJCA 2004) Note new charitable vehicle deduction limits for contributions after 12/31/04. (AJCA 2004)	_____	_____	_____
804) If the corporation was a party to an “applicable asset acquisition,” determine that the reporting requirements have been met. (Form 8594)	_____	_____	_____
805) Advise the client that any unpaid retirement plan contribution must be made before the due date of the return. Note contributions to defined benefit plans may have earlier due dates.	_____	_____	_____
806) Reconcile income and expenses per books with return.	_____	_____	_____
807) Consider § 6662 accuracy-related penalty.	_____	_____	_____
.1) Determine if disclosure is adequate.	_____	_____	_____
.2) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
808) Consider partial payment installment agreement for taxes owed. (AJCA 2004)	_____	_____	_____
809) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing corporate circumstances and law changes. (AJCA 2004)	_____	_____	_____
810) Inquire if Forms 1098 and 1099 have been filed.	_____	_____	_____
811) Inquire if employment taxes were timely deposited. (EFTPS)	_____	_____	_____
812) Determine that related transactions are properly reported on all available returns. Note new penalties under AJCA 2004	_____	_____	_____
813) Determine whether there are any reportable transactions that need to be disclosed on Form 8886. Note new penalties under AJCA 2004.	_____	_____	_____
814) Note tax planning/additional service suggestions. (See Client Review for Additional Services.)	_____	_____	_____

COMMENTS OR EXPLANATIONS

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider obtaining signed:			
.1) Engagement letter	_____	_____	_____
.2) Engagement letter for tax advice under the CPA-client privilege provisions of 7525	_____	_____	_____
.3) Power of attorney	_____	_____	_____
102) Review and update the S corporation and shareholders' names, addresses, fiscal year, incorporation date, business code, identification numbers, and IRS and other tax filing addresses.	_____	_____	_____
103) Review permanent file, prior year returns, memos, workpapers, carryovers and correspondence files.	_____	_____	_____
104) Review pro forma/organizer for accuracy.	_____	_____	_____
105) If the S corporation has been examined by the Internal Revenue Service, state or local taxing authority:			
.1) Obtain copies of the revenue agent's reports.	_____	_____	_____
.2) Determine that the agent's adjustments have been entered on the S corporation's records, and appropriate carryover work-papers.	_____	_____	_____
.3) If the agent's adjustments affect income tax returns of years other than those audited, or the corresponding federal or state returns for the same year, consider filing amended returns.	_____	_____	_____
.4) Inquire whether the S corporation has informed the shareholders of examination by the IRS or state agency.	_____	_____	_____
106) Obtain copies of correspondence with the IRS or state taxing authorities. Consider impact.	_____	_____	_____
107) Inquire whether the S corporation has made or received any below-market-rate loans. Determine imputed interest consequences and existence of properly executed note.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
108) Review for adequate stated interest on debt instruments:			
.1) Determine whether original issue discount or unstated interest rules require restatement of note interest and principal.	_____	_____	_____
.2) Consider election for purchased discount under § 1278.	_____	_____	_____
109) Review for proper reporting of interest recognition in accordance with Regs. §§ 1.483-4 and 1.1274-5 for debt instruments providing contingent payments.	_____	_____	_____
110) Election/revocation/termination of S status:			
.1) If S status was elected during the current year:			
(a) Confirm that IRS (and state if applicable) approval of the election has been received and is in effect for the current year.	_____	_____	_____
(b) Consider scheduling potential "built-in" gains at date of election.	_____	_____	_____
(c) Consider requesting relief of an invalid election under § 1362(b)(5) and 1362(f). (Rev. Proc. 97-48 and 2003-43) (AJCA 2004)	_____	_____	_____
(d) Consider requesting relief for a late election. (Rev. Proc. 2003-43, 2004-35, and 2004-48)	_____	_____	_____
.2) If the S status was revoked during the current year:			
(a) Confirm that a revocation was properly filed.	_____	_____	_____
(b) Determine whether the revocation is effective for the entire year (if filed within the first 2½ months of the year) or prospectively.	_____	_____	_____
(c) Obtain a copy of IRS approval letter.	_____	_____	_____
.3) Events terminating S status:			
(a) Determine that no disqualifying event has occurred related to excess number of shareholders, prohibited type of shareholder or issuance of a second class of stock. Consider changes regarding number of shareholders, types of shareholders and safe harbor debt.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(b) Determine that termination is not triggered by excess passive income for three consecutive years if corporation has C corporation accumulated earnings and profits. Note passive income exclusion of dividends from 80% or greater subsidiary attributable to E&P derived from an active trade or business.	_____	_____	_____
.4) If S status was terminated or revoked during the year:			
(a) Verify allocation method - per day basis or actual. More than 50% cumulative change in stock ownership during the year requires actual cutoff. If electing actual, match the election and the shareholders' consent.	_____	_____	_____
(b) Consider C corporation estimated tax payments for the succeeding year based on the S corporation's net income.	_____	_____	_____
(c) Consider requesting relief under the "inadvertent termination rule" under § 1362(f).	_____	_____	_____
(d) Consider whether suspended losses were triggered due to a basis increase during post-termination transition period.	_____	_____	_____
111) If the corporation owns a qualified Subchapter S subsidiary (QSub) (TD 8869) include all assets, liabilities, and items of income, deduction and credits of the QSub on the return.	_____	_____	_____
112) If the corporation has selected an allowable fiscal tax year, determine that Form 8716 has been timely filed, and that "required payments" (Form 8752) have been made. Note that a copy of Form 8716 must be attached to Form 1120S for the first taxable year for which the election is made.	_____	_____	_____
113) If the corporation is considering adopting or changing its taxable year (or, in the case of a former C corporation that has recently elected S corporation status retaining a taxable year which is other than a calendar year), see the temporary and proposed regulations under §§ 441, 442, 706 and 1378. (Rev. Procs. 2002-27, 2002-38, and 2002-39)	_____	_____	_____
114) If the corporation is on the cash basis, determine if the accrual basis is required.	_____	_____	_____
115) If the corporation is on the accrual method, consider change to cash method. This area has been subject to recent IRS modifications.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
116) Determine that accounting methods are comparable to the preceding year unless changes are approved or required. (See instructions to Form 3115 and current year's revenue procedures for a list of approved automatic changes.)	_____	_____	_____
117) Consider economic performance requirements and recurring item exception.	_____	_____	_____
118) Review and update schedules for federal and state carryover items (regular and AMT) such as:			
.1) Prior year deferred deductions.	_____	_____	_____
.2) Installment sales. Consider applicable tax rates for components of gain.	_____	_____	_____
.3) Changes in accounting methods requiring § 481 adjustments.	_____	_____	_____
.4) Suspended losses/credits due to at-risk limitations.	_____	_____	_____
.5) Compare losses to basis limitations to determine deductibility of losses; update basis schedules accordingly.	_____	_____	_____
.6) Net unrealized built-in gain.	_____	_____	_____
119) Review financial statements and footnotes for relevant information.	_____	_____	_____
120) Review Board minutes.	_____	_____	_____
121) Review prior year's return Schedule M-1 for items which may have an effect upon or require similar treatment in the current year.	_____	_____	_____
122) Consider filing power of attorney in addition to "check-box" option.	_____	_____	_____
123) Consider filing information returns related to ownership in foreign partnerships and corporations. (Form 5471)	_____	_____	_____
124) Consider filing requirements of foreign-owned U.S. corporations. (Form 5472)	_____	_____	_____
125) Determine if Form TDF 90-22.1 is needed to report foreign financial accounts. (Note new penalty under AJCA 2004.)	_____	_____	_____
126) Determine if the corporation:			
.1) Created a foreign trust.	_____	_____	_____
.2) Transferred property to a foreign trust.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.3) Received distributions, directly or indirectly, from a foreign trust. (§ 6048)	_____	_____	_____
.4) Received loans, unless with arms-length terms, from a foreign trust.	_____	_____	_____
.5) Is a beneficiary of a foreign trust and transferred property to a foreign grantor of the trust.	_____	_____	_____
127) Consider other foreign reporting requirements.	_____	_____	_____
128) Consider if disaster relief provisions apply.	_____	_____	_____
129) Determine state and local tax filing requirements (see Nexus Practice Guide). Consider:			
.1) Recognition of S status.	_____	_____	_____
.2) State modification requirements.	_____	_____	_____
.3) State withholding requirements on income allocated to non-resident shareholders.	_____	_____	_____
.4) Information to allow shareholder to file the necessary state tax returns.	_____	_____	_____
.5) Composite filing on behalf of nonresident shareholders.	_____	_____	_____
.6) Apportionment data for multistate taxpayer.	_____	_____	_____
130) Consider listed and reportable transactions that need to be disclosed on Form 8886. Note new penalties under AJCA 2004 for failure to report.	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of interest and dividend income with prior year items.	_____	_____	_____
202) Review Forms 1099 and year-end statements for dividends, interest and gross proceeds from sales. Segregate qualified dividends. (JGTRRA 2003)	_____	_____	_____
203) Determine that only trade or business (e.g., not portfolio or rental) income is shown on page 1 of Form 1120S.	_____	_____	_____
204) If installment method rules apply, see Installment Sales Checklist (see Temp. Reg. § 1.338(h)(10)-1T(d)(9) and AJCA 2004).	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
205) If long-term contract rules apply, see Long-Term Contracts Checklist.	_____	_____	_____
206) If property was sold, exchanged or involuntarily converted during the year:			
.1) Reconcile to depreciation schedule.	_____	_____	_____
.2) Determine holding period and federal, state, and AMT bases.	_____	_____	_____
.3) Determine that gains and losses are properly characterized.	_____	_____	_____
.4) For § 1231 gains, determine the amount subject to ordinary income treatment as a result of five-year recapture rule for prior net § 1231 losses.	_____	_____	_____
.5) Determine that sales of securities settled after year-end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233.	_____	_____	_____
.6) Review application of the wash sale rules.	_____	_____	_____
.7) Report gains on constructive sales of appreciated financial positions. Note exception under § 1259(c)(3).	_____	_____	_____
.8) Review application of straddle rules and available elections under § 1092 and see final regulation § 1.1092(c)(1). (AJCA 2004)	_____	_____	_____
.9) Consider allowable methods of calculating basis on the sale of mutual funds.	_____	_____	_____
.10) Consider if limitations apply for a mutual fund sold within six months of acquisition.	_____	_____	_____
.11) Consider the effect on basis of nontaxable stock dividends, reinvested dividends and OID.	_____	_____	_____
.12) Consider provisions related to:			
(a) Rules for like-kind and related party exchanges. (Form 8824) Note restrictions on exchange of U.S. property for foreign property. (See T.D. 9151, 8/12/04, replacing the SIC system with the NAIC system.)	_____	_____	_____
(b) Recapture of depreciation (including § 291 recapture) and/or tax credit, or reduction of credit carryforwards. Note § 1245 applications.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(c) Presumption of capital gain relating to subdivision of land. (§ 1237)	_____	_____	_____
(d) Gain from distributions of appreciated property.	_____	_____	_____
(e) Forced sale of livestock on account of weather related conditions. (See AJCA 2004 for increased reinvestment time period.)	_____	_____	_____
(f) Election to roll over gain from the sale of qualified small business stock and small business investment company stock. (§§ 1044 and 1045)	_____	_____	_____
(g) Sale of "qualified community assets" located in "renewal communities" (CRTRA 2000 effective January 1, 2002 through December 31, 2014).	_____	_____	_____
(h) Ordinary income treatment of commodities derivatives sold by commodities derivatives dealers; hedging transactions, and supplies of a type regularly consumed in the ordinary course of business.	_____	_____	_____
(i) Involuntary conversion rules and elections.	_____	_____	_____
207) Deferred income and expenses:			
.1) Include in gross income, as appropriate, income deferred for books in the current year.	_____	_____	_____
.2) Exclude from gross income, as appropriate, income for books in the current year that was taken into income for tax in a prior year.	_____	_____	_____
.3) Consider whether there are any advance payments for goods that can be determined under Reg. § 1.451-5. Note the information schedule requirements.	_____	_____	_____
.4) Determine proper treatment of certain advance payments. (Rev. Proc. 71-21 and Rev. Proc. 2004-34)	_____	_____	_____
.5) Consider economic accrual of rent.	_____	_____	_____
.6) Determine deductibility of prepaid expenses. (See Reg. § 1.263(a)-4.)	_____	_____	_____
208) Accrual basis taxpayers should consider deferral of state or local income or franchise tax refunds. (Rev. Rul. 2003-3)	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
209) Determine that sales of securities settled after year end, with a trade date within current year, are reported this year. Note special rules for short sales in § 1233.	_____	_____	_____
210) Determine if there were passive activities. Note requirement to group activities. (See Passive Activity Checklist.)	_____	_____	_____
211) Inquire if securities held by the S corporation became worthless during the year. Note that substantial worthlessness of short sale property is a gain recognition event.	_____	_____	_____
212) Report rental real estate activities on Form 8825.	_____	_____	_____
213) For leased vehicles, calculate the appropriate income inclusion amount to be reported by referring to the IRS tables. (See Vehicle Related Guides.)	_____	_____	_____
214) Determine if there is income from discharge of indebtedness.	_____	_____	_____
.1) Consider exclusion and elections under § 108. (See Reg. § 1.1017-1)	_____	_____	_____
.2) Consider Form 982.	_____	_____	_____
.3) Do not increase basis for excluded amounts.	_____	_____	_____
215) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
216) Inquire if the taxpayer engaged in bartering transactions.	_____	_____	_____
217) Consider limitations of losses for transactions with related parties.	_____	_____	_____
218) Consider the mark to market rules for dealers in securities under § 475 and the related § 481 adjustment.	_____	_____	_____
219) If Form 1099-OID is received, compute for includible amount.	_____	_____	_____
220) Consider exclusion from income of cash or rent reduction received from lessor under a short-term lease of retail space utilized to construct leasehold improvements which will revert to the lessor at termination of lease.	_____	_____	_____
221) Consider the extraterritorial income exclusion on qualified foreign trade income. (Form 8873)	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
222) Consider at-risk rules. Also see final Regs. §§ 1.465-8 and 1.465-20 for amounts borrowed from interested or related parties.	_____	_____	_____
223) Consider the need to file Form 5713, International Boycott Report.	_____	_____	_____
300) DEDUCTIONS			
301) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis (vested at year end and paid within two and one-half months after year end).	_____	_____	_____
302) If uniform capitalization rules apply, see Uniform Capitalization Checklist.	_____	_____	_____
303) If Long-Term Contract rules apply, see Long-Term Contract Checklist.	_____	_____	_____
304) For charitable contributions consider:			
.1) If contributions are to qualified charitable organizations.	_____	_____	_____
.2) That certain contributions to organizations conducting lobbying activities related to the taxpayer's trade or business are not deductible.	_____	_____	_____
.3) Reduction of contribution deduction due to value of athletic tickets or token benefits.	_____	_____	_____
.4) The limitation related to contributions, after June 3, 2004, of patents or other intellectual property. (AJCA 2004)	_____	_____	_____
.5) If adequate contemporaneous documentation was obtained for charitable contributions of \$250 or more and quid pro quo contributions in excess of \$75.	_____	_____	_____
.6) If adequate contemporaneous documentation was obtained for charitable contributions of vehicles after December 31, 2004. Note new limits on deduction allowed. (AJCA 2004)	_____	_____	_____
.7) The limitation related to contributions of appreciated ordinary income property.	_____	_____	_____
.8) Costs of contributed property held for sale in the course of a trade or business that are incurred in the year of contribution are treated as part of cost of goods sold for such year, not a charitable contribution subject to the related rules and limitations.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.9) The deduction for more than cost of appreciated capital gains property.	_____	_____	_____
.10) Rev. Rul. 2000-43 disallowing year-end accrued charitable contributions	_____	_____	_____
.11) If Form 8283 is required for other than cash gifts.	_____	_____	_____
.12) Appraisal for gifts exceeding \$5,000. Note for gifts after June 3, 2004, exceeding \$500,000, appraisal must be attached to return. (AJCA 2004)	_____	_____	_____
.13) Denial of charitable contribution deduction for transfers associated with split-dollar insurance arrangements.	_____	_____	_____
.14) Enhanced deduction for computer technology and equipment. (WFTRA 2004)	_____	_____	_____
305) Inquire if fringe benefits for more than 2% shareholders claimed as deductions by the S corporation have been reported on the recipient shareholders' Forms W-2 as wages subject to income tax.	_____	_____	_____
306) Inquire whether the S corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method and note limitation on deductibility of certain nonemployee travel expenses. (See Rev. Proc. 2003-80.) (See also Rev. Proc. 2004-29 regarding the ability to use statistical sampling for meals and entertainment expenses that are not subject to the 50% limitation.)	_____	_____	_____
307) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions, including employer-provided meals.	_____	_____	_____
308) Limit deduction for certain entertainment expenses to amount includible in compensation for officers, directors and 10% or greater owner. (AJCA 2004)	_____	_____	_____
309) Determine that expenses allocable to portfolio income have not been deducted on page 1, Form 1120S.	_____	_____	_____
310) Determine if professional fees and/or employee salaries require capitalization.	_____	_____	_____
311) If taxpayer maintains a profit sharing plan and has not contributed the maximum contribution for each taxable year beginning prior to 1987, calculate the unfunded contribution carryover amount.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
312) Determine that specific write-off and/or nonaccrual experience method is used for bad debts for entities other than financial institutions.	_____	_____	_____
313) Review partially worthless debt for write-off under Reg. § 1.166-3.	_____	_____	_____
314) Officers and shareholders:			
.1) Determine the ownership of life insurance policies and the proper treatment of related expenses.	_____	_____	_____
.2) Determine split-dollar insurance treatment. (See Reg. § 1.61-22)	_____	_____	_____
.3) Determine deductibility of disability insurance premiums.	_____	_____	_____
.4) If there were any accruals of interest, compensation or other expenses payable to a shareholder or other related parties, determine that for tax purposes the deduction is deferred until the year in which it is includible in income of the shareholder.	_____	_____	_____
.5) Consider if compensation to shareholders who perform substantial services for the corporation was sufficient.	_____	_____	_____
.6) Review documentation of shareholder loans and adequate interest rate.	_____	_____	_____
315) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
316) Interest considerations:			
.1) Treat amortizable bond premium (for bonds acquired after 1987) as an offset to interest income.	_____	_____	_____
.2) Eliminate interest expense on debts with respect to life insurance policies (purchased after June 20, 1986) on current or former beneficial owners and key employees to the extent that the total of such loans exceeds \$50,000. Note phase-in rules and additional limitations for new or materially changed contracts issued after June 8, 1997.	_____	_____	_____
.3) Determine that the proper classifications have been made by type (trade or business, investment, passive activity, tax-exempt expenditures, etc.).	_____	_____	_____
.4) Determine that proper allocation of interest expense has been made if the proceeds of a loan were used for more than one purpose.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
.6) Determine if there is an allowable interest deduction related to deferred compensation agreements.	_____	_____	_____
.7) Capitalize interest and carrying charges on straddles. (§ 263(g))	_____	_____	_____
.8) Determine if there is nondeductible disqualified debt interest under § 163(1).	_____	_____	_____
317) Consider limitations on deducting expenses related to federally tax exempt income. Note that these expenses may be deductible at the state level if the related income is state taxable.	_____	_____	_____
318) Determine that certain lobbying expenses are not deducted. Note exceptions.	_____	_____	_____
319) Inquire if dues include nondeductible lobbying expenses.	_____	_____	_____
320) Determine if compensation deductions are allowable with respect to:			
.1) Current or past transfers of property that are no longer subject to a substantial risk of forfeiture. (§ 83)	_____	_____	_____
.2) Current transfers of property for which a § 83(b) election is made.	_____	_____	_____
.3) Disqualifying dispositions of stock under incentive stock options. (§ 422)	_____	_____	_____
.4) Employee stock purchase plans. (§ 423)	_____	_____	_____
.5) Exercise of nonqualified stock options for stock without a readily ascertainable fair market value.	_____	_____	_____
321) Determine that retirement plan contributions have been calculated using the eligible compensation limit and were timely made. Obtain a listing of dates and amounts of payments.	_____	_____	_____
322) Determine if deductions should be reduced by credits claimed.	_____	_____	_____
323) Determine proper treatment of environmental clean-up expenses. Note expense election under § 198 and Rev. Rul. 2004-18. (WFTRA 2004)	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
324) Determine whether inventory write-down for book purposes should be adjusted for tax. Note allowable estimated inventory shrinkage.	_____	_____	_____
325) Determine proper treatment for long-term leases where leases provide for deferred payments or increasing payments under § 467. Also see proposed Reg. § 1.467.	_____	_____	_____
326) Determine passive activity reporting for activities distributed to shareholders.	_____	_____	_____
327) Consider § 266 election to capitalize carrying charges (interest, taxes, etc.) on non-productive property.	_____	_____	_____
328) Consider deduction for cleaning up polluted "brownfields" which has been extended through 2005. (WFTRA 2004)	_____	_____	_____
329) Determine casualty loss limit.	_____	_____	_____
330) For accrual basis taxpayers, determine whether state taxes are properly deducted. (Rev. Rul. 2003-90)	_____	_____	_____
331) Determine proper treatment of costs incurred to acquire or create intangible assets. See Rev. Proc. 2004-23 and final Regs. §§ 1.263(a)-4, 1.263(a)-5 and 1.167(a)-3(b) (T.D. 9107, 69 FR 436).	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) For assets placed in service during the current year:			
.1) Consider additional first-year depreciation allowance of:			
(a) 50% of adjusted basis of "50 percent bonus depreciation property" placed in service before January 1, 2005. (JGTRRA 2003 and WFTRA 2004)	_____	_____	_____
(b) 30% of adjusted basis for 50% bonus depreciation property placed in service before January 1, 2005. Note special election must be made on tax return. (JGTRRA 2003)	_____	_____	_____
.2) Consider election out of bonus depreciation.	_____	_____	_____
.3) Consider § 179 election to expense qualifying assets. Note current allowable amounts. (AJCA 2004)	_____	_____	_____
.4) Consider "off-the-shelf software" as eligible for § 179 election for tax years beginning after 2002 and ending before 2008. (JGTRRA 2003 and AJCA 2004)	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.5) Consider § 179A election to expense qualifying clean-fuel vehicles and related refueling property. (WFTRA 2004)	_____	_____	_____
.6) Determine depreciation of property received in a like-kind exchange or involuntary conversion (Reg. § 1.168(i)-6T for transactions occurring after February 27, 2004 and Notice 2000-4 for transactions prior to this date).	_____	_____	_____
.7) Determine the depreciable basis of each asset.	_____	_____	_____
.8) Determine the property class, recovery period and depreciation method for each asset. Note new limitations on property qualifying for income forecast method and designated lives of rent-to-own property. See also AJCA 2004.	_____	_____	_____
.9) Determine the applicable convention (half-year, mid-quarter or mid-month).	_____	_____	_____
.10) Determine that the cost of leasehold improvements is being recovered over the applicable recovery period regardless of the lease period.	_____	_____	_____
.11) Determine if leasehold improvements is "qualified leasehold improvement property" or restaurant property for use of 15-year recovery period for property placed in service after October 22, 2004 and before 2006. (AJCA 2004)	_____	_____	_____
.12) Consider 36-month depreciation rules for software.	_____	_____	_____
.13) Consider reduced depreciable lives for real estate improvements and special use structures.	_____	_____	_____
.14) Consider separate component analysis for building items. (Hospital Corporation of America, 109 T.C. 21 (1997) and Brookshire Brothers, 320 F.3d 507, 5 th Cir. 2003).	_____	_____	_____
.15) Consider electing the Alternative Depreciation System (straight line over an ADS recovery period) for qualifying General Depreciation System property.	_____	_____	_____
.16) Consider electing the 150% DB method over the recovery periods applicable to the regular tax for tangible personal property otherwise qualifying for the 200% DB method.	_____	_____	_____
.17) For farming, determine that MACRS is applied using 150% DB. Note ADS required if elected out of § 263A.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.18) If property is leased to a tax-exempt entity, consider the possible need to use the ADS.	_____	_____	_____
.19) Consider depreciation limitations for Industrial Development Bond (IDB) financed property, and certified historic structures for which a tax credit was taken.	_____	_____	_____
.20) If a short year, determine that Rev. Proc. 89-15 is followed.	_____	_____	_____
.21) If there has been a purchase price adjustment, see Prop. Reg. § 1.168-2 (d)(3).	_____	_____	_____
.22) Determine if interest is payable under look-back method where income forecast method is used. Note interest calculation change.	_____	_____	_____
.23) Consider modifications to the income forecast method of depreciation for property placed in service after October 22, 2004 as it relates to "participations and residuals." (AJCA 2004)	_____	_____	_____
.24) Consider election under § 181(a)(2) to deduct cost of production in the year incurred for qualified film and television productions for costs incurred after October 22, 2004 and before January 1, 2009. (AJCA 2004)	_____	_____	_____
.25) Consider accelerated depreciation for qualifying property located on Indian reservations. (WFTRA 2004)	_____	_____	_____
.26) Determine if New York Liberty Zone or NYC benefits and incentives are applicable.	_____	_____	_____
.27) Consider filing amended returns as appropriate under Reg. § 1.168(k)-1T(g)(4)(ii), Notice 2003-45 and Rev. Proc. 2003-50.	_____	_____	_____
.28) Consider Rev. Proc. 2004-11 for claiming depreciation after disposal of an asset.	_____	_____	_____
402) Determine that amortizable items, including goodwill, are written off over the correct periods. Note new limits for organizational and start-up expenditures incurred after October 22, 2004. (AJCA 2004)	_____	_____	_____
403) Consider the provisions of Rev. Proc. 2002-54 to rectify prior year claims of less than allowable depreciation or amortization.	_____	_____	_____
404) Determine if leased property/equipment should be capitalized.	_____	_____	_____
405) Consider anti-churning rules.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
406) For listed property (e.g., cellular phones, autos, computers, airplanes, boats):			
.1) For business vehicles, consider the maximum allowable under the luxury auto rules. Note exceptions for clean burning, electric and vehicles with GVW of more than 6,000 lbs. and qualified non-personal use trucks and vans placed in service after July 6, 2003. (Reg. § 1.280 F-6(c)(3)(iii) Note first-year dollar limitations. (Rev. Proc. 2004-20)	_____	_____	_____
.2) For business vehicles purchased after October 22, 2004, consider the new expensing limitations for sports utility vehicles rated at 14,000 lbs. gross vehicle weight or less. (AJCA 2004)	_____	_____	_____
.3) For autos, determine limitation if the business usage is 50% or less.	_____	_____	_____
.4) Determine limitations for all other mixed-use property, if the business usage is 50% or less.	_____	_____	_____
.5) Inquire if the individual has kept the required records indicating the business and personal use of property. Note certain travel between home and temporary work locations is considered business.	_____	_____	_____
.6) Determine recapture if the business usage has declined to 50% or less.	_____	_____	_____
407) Form 4562 if required:			
.1) Reconcile depreciation expense to supporting schedules.	_____	_____	_____
.2) Complete all questions regarding personal use of listed property.	_____	_____	_____
.3) If costs were incurred during the current year, determine that all amortizable items are separately stated and the proper Code section cited.	_____	_____	_____
408) Consider state depreciation, if different.	_____	_____	_____
409) Consider federal and state AMT depreciation. Note depreciable lives of tangible personal property placed in service after 1998 are the same for regular and AMT purposes. Note that the 30% and 50% first-year depreciation under JGTRRA 2003 applies for AMT purposes.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
410) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider credit recapture.	_____	_____	_____
411) Report depreciation recapture and related investment credit recapture if taxpayer converted depreciable business assets to non-business personal assets.	_____	_____	_____
412) Determine depreciation allowable for property "after use-change" (final Reg. 1.168(i)-4).	_____	_____	_____
500) TAX COMPUTATION AND CREDITS			
501) Tax on excess net passive income:			
.1) Determine if passive investment income is greater than 25% of gross receipts and the S corporation has earnings and profits from any C years. Note passive income exclusion of dividends from an 80% or greater subsidiary attributable to E&P from an active trade or business.	_____	_____	_____
.2) Consider election to designate distributions as deemed out of earnings and profits. (§ 1368(e)(3)) (Form 5452 required)	_____	_____	_____
.3) Consider election to forgo previously taxed income. (§ 1.1368-1(f)(4))	_____	_____	_____
502) Tax on "built-in" gains--applies to prior C corporations that filed S status election subsequent to 1986. Consider the following:			
.1) Disclose remaining "built-in" gains on Schedule B.	_____	_____	_____
.2) Compute tax at maximum corporate rate for the net recognized gains for the taxable years (not to exceed Subchapter C taxable income as adjusted) on the disposition of assets. (§ 1374)	_____	_____	_____
.3) If S election was made after March 30, 1988, determine built-in gain carryover.	_____	_____	_____
.4) Gasoline and special fuel credits as well as the following carryforwards from C years may be used to reduce built-in gains tax:			
(a) Net operating loss.	_____	_____	_____
(b) Capital losses.	_____	_____	_____
(c) Business credits.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(d) Minimum tax credits.	_____	_____	_____
503) Consider tax on LIFO recapture for C corporations electing S status.	_____	_____	_____
504) Consider tax payable by the corporation from recomputing a prior year investment tax credit as a result of the early disposition of assets acquired in C corporation years.	_____	_____	_____
505) Confirm the amounts and dates of any federal, state and local estimated tax deposits for the year, prior year overpayments applied, backup withholding and extension payments.	_____	_____	_____
506) Consider federal (JGTRRA 2003) and state estimated tax requirements and related electronic filing requirements.	_____	_____	_____
507) Consider tax credits such as:			
.1) Foreign tax credit-corporations. (Form 1118) Note changes to treatment of 10/50 company dividends. (Notice 2003-5)	_____	_____	_____
.2) Investment tax credit (rehabilitation and transition, energy and reforestation). (Form 3468)	_____	_____	_____
.3) Credit for increasing research activities extended through Dec. 31, 2005. (Form 6765) (WFTRA 2004)	_____	_____	_____
.4) Enhanced oil recovery credit. (Form 8830)	_____	_____	_____
.5) Credit for federal tax paid on fuels. (Form 4136)	_____	_____	_____
.6) Low income housing credit. (Form 8586)	_____	_____	_____
.7) Disabled access credit. (Form 8826)	_____	_____	_____
.8) Qualified electric vehicle credit. (Form 8834) (WFTRA 2004)	_____	_____	_____
.9) Renewable electricity production credit. (Form 8835) (WFTRA 2004 and AJCA 2004)	_____	_____	_____
.10) Credit for employer social security and Medicare taxes paid on certain employee tips. (Form 8846)	_____	_____	_____
.11) Indian employment credit. (Form 8845) (WFTRA 2004)	_____	_____	_____
.12) Credit for contributions to selected community development corporations. (Form 8847)	_____	_____	_____
.13) Credit for alcohol used as fuel (AJCA 2004). (Form 6478)	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.14) Refundable excise tax credit for alcohol fuel mixture for fuel sold or used after 2004. (AJCA 2004)	_____	_____	_____
.15) Refundable excise tax credit for biodiesel mixture for fuel sold or used after 2004. (AJCA 2004)	_____	_____	_____
.16) Credit for biodiesel and qualified biodiesel mixtures for fuel produced, and sold or used after 2004. Note this credit is coordinated with the benefits received from the biodiesel excise tax credit. (AJCA 2004)	_____	_____	_____
.17) Empowerment zone and renewal community employment credit. (Form 8844)	_____	_____	_____
.18) Work Opportunity Credit for certified eligible employees who began work before January 1, 2006. (Form 5884) (WFTRA 2004)	_____	_____	_____
.19) Credit for qualified clinical testing expenses (Orphan Drug Credit), and associated carrybacks and carryovers. (Form 8820)	_____	_____	_____
.20) Welfare-to-work tax credit for certified eligible employees who began work before January 1, 2006. (Form 8861) (WFTRA 2004)	_____	_____	_____
.21) Renewal community employment credit for qualifying wages paid after December 7, 2001, and before January 1, 2010.	_____	_____	_____
.22) New markets tax credit for qualifying investments in low-income communities (AJCA 2004). (Form 8874) (§ 45D)	_____	_____	_____
.23) Credit for employer-provided child care expenses. (Form 8882) (§ 45F)	_____	_____	_____
.24) Credit for small employer pension plan start-up costs. (Form 8881) (§ 45E)	_____	_____	_____
508) If taxpayer is part of a controlled group, consider special allocation rules under §§ 1561 and 1563. Attach apportionment schedules.	_____	_____	_____
600) SHAREHOLDER INFORMATION (See Final Regs. §§ 1.1366-1 through 5, 1.1367-1 through 3 and 1.368-1 through 4.)			
601) Shareholder allocation/limitation:			
.1) Determine that items of income, deductions, credits, etc., are allocated to the shareholders on a per-share, per-day basis.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) If stock transfers occurred during the year which resulted in a termination of a shareholder's interest, consider allocations based on time of actual occurrence. Attach the affected shareholders' and corporation's statement of election.	_____	_____	_____
 602) Shareholder distribution/basis computations:			
.1) Determine that equity increases and decreases (Schedule M-2) are properly segregated among:			
(a) Accumulated adjustment account.	_____	_____	_____
(b) Other adjustment account.	_____	_____	_____
(c) Shareholders undistributed PTI.	_____	_____	_____
.2) Determine that distributions exceeding the accumulated adjustment account for S corporations with earnings and profits from C years are reported (Form 1099-DIV) to shareholders as dividends to the extent of accumulated earnings and profits. Note that current year net reductions are disregarded in this computation. (Form 5452)	_____	_____	_____
.3) Determine that gain is recognized and allocated to each shareholder for distribution of appreciated property.	_____	_____	_____
.4) If corporation is in bankruptcy or insolvent, determine that basis is not increased for cancellation of debt that is not treated as an income item.	_____	_____	_____
.5) Determine that shareholder loans will be treated as economic investment. (Oren v. Commr., No. 03-1448, 8th Cir. 2/12/04)	_____	_____	_____
603) If shareholder is an Electing Small Business Trust, see new temporary and proposed regulations in T.D. 8915.	_____	_____	_____
604) Consider use of the S Corporation Shareholder Basis Schedule.	_____	_____	_____
 700) K-1 INFORMATION			
701) Verify correctness of shareholders' names, addresses and identification numbers.	_____	_____	_____
702) Determine that proper and separate reporting have been provided for all appropriate items such as:	_____	_____	_____
.1) Ordinary trade or business activities.	_____	_____	_____

S CORPORATION INCOME TAX RETURN CHECKLIST
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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Rental activities.	_____	_____	_____
.3) Portfolio income and related deductions.	_____	_____	_____
.4) Dividends. Note reporting requirements for different types of ordinary dividends. (JGTRRA 2003)	_____	_____	_____
.5) Gains and losses, dates of dispositions, respective holding periods and types of assets sold.	_____	_____	_____
.6) Passive activity data (note elections). See Passive Activity Checklist.	_____	_____	_____
.7) Self-charged interest. Note final Reg. § 1.469-7 allowing for possible recharacterization of interest income. See Passive Activity Checklist.	_____	_____	_____
.8) All items that affect shareholder basis calculations (e.g., nondeductible items and nontaxable income). Consider election to take losses and deductions against basis before nondeductible items. (Reg. § 1.1367-1G)	_____	_____	_____
.9) Charitable contributions including copy of Form 8283 and appraisal (AJCA 2004) when required.	_____	_____	_____
.10) Shareholder loan repayments.	_____	_____	_____
.11) Distributions.	_____	_____	_____
.12) At risk information.	_____	_____	_____
.13) Credit information.	_____	_____	_____
.14) Interest incurred in the production of property that may have to be capitalized at the shareholder level. (Notice 88-99)	_____	_____	_____
.15) Other pass-through items (e.g., intangible drilling costs, depletion).	_____	_____	_____
.16) Tax shelter registration number and Form 8271 when required.	_____	_____	_____
.17) State allocation and characterization of income, deductions and credits.	_____	_____	_____
.18) Unrelated business taxable income.	_____	_____	_____
703) Segregate tax preference and adjustment items and report on the appropriate lines.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
704) Prepare schedules that reflect information to allow each shareholder to compute credit recapture.	_____	_____	_____
705) Determine that information relating to interest expense on debt-financed distributions to shareholders has been provided. (Notice 89-35)	_____	_____	_____
800) OTHER REQUIREMENTS			
801) Compare net income or loss to projections.	_____	_____	_____
802) Consider elections and statements, such as:	_____	_____	_____
.1) Election to distribute accumulated earnings and profits first. (Form 5452 required)	_____	_____	_____
.2) Election to amortize organization expense. Note new election limits under AJCA 2004 for expenses incurred after October 22, 2004.	_____	_____	_____
.3) Election to amortize business start-up costs. (Reg. § 1.195-1) Note new election limits under AJCA 2004 for expenses incurred after October 22, 2004.	_____	_____	_____
.4) Election to expense intangible drilling costs.	_____	_____	_____
.5) Cash vs. accrual method of accounting. (Rev. Proc. 2001-10)	_____	_____	_____
.6) Section 351, statement of transferred assets.	_____	_____	_____
.7) Method for valuation of inventory.	_____	_____	_____
.8) Method of calculating § 263A adjustment.	_____	_____	_____
.9) Research and experimental cost election.	_____	_____	_____
.10) Exception from economic performance for recurring items. Under final regulations, the election for any item(s) incurred for the first time is made by accounting for the item(s) under the recurring method on a timely filed tax return.	_____	_____	_____
.11) A § 732(d) election, if there is a distribution of property from a partnership within two years of receiving the partnership interest.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.12) If this is the first year the taxpayer has incurred real property taxes, determine if a § 461(c) election to accrue ratably is more beneficial than adopting the recurring item exception. (Rev. Proc. 92-28)	_____	_____	_____
.13) The option to treat current year qualifying disaster losses on appropriate preceding year tax return.	_____	_____	_____
.14) Change in accounting method or period. (Form 3115 or Form 1128)	_____	_____	_____
.15) Disclosure statement under Reg. § 1.368-3 for any reorganization.	_____	_____	_____
.16) Tax shelter disclosure statement under Reg. § 1.6011-4 (T.D. 9046, 2/28/03) (Form 8886) if S corporation participates, directly or indirectly, in listed transactions	_____	_____	_____
803) Determine if expenditures were incurred that are eligible for the Disabled Access Credit (Form 8826). If the taxpayer does not qualify for the credit or has expenditures in excess of the credit, consider making a § 190 election to expense the cost.	_____	_____	_____
804) Cross-reference the following items:			
.1) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____
.2) Schedules M-1 and M-2 beginning and ending equity accounts to Schedule L.	_____	_____	_____
.3) Detail listings of Schedule L beginning balances to prior year's detail listings of ending balances.	_____	_____	_____
805) If the corporation was a party to an applicable asset acquisition (transfer of assets that constitute a trade or business), determine that applicable reporting requirements regarding allocation of purchase price have been met. (Form 8594)	_____	_____	_____
806) Determine that book/tax accounting method differences related to Schedule M are documented in the workpaper files.	_____	_____	_____
807) Consider § 6662 accuracy-related penalty.	_____	_____	_____
.1) Determine if disclosure is adequate. (Rev. Proc. 2002-66)	_____	_____	_____
.2) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
808) Consider partial payment installment agreement for taxes owed. (AJCA 2004)	_____	_____	_____
809) Complete and attach Form 5452 to report nondividend distribution (i.e., distributions in excess of earnings and profit).	_____	_____	_____
810) Inquire if the corporate minute book has been updated.	_____	_____	_____
811) Inquire if the required Forms 5500 have been filed for retirement plans covered by this period.	_____	_____	_____
812) Inquire if the required Forms 5500 have been filed for welfare benefit plans (e.g., medical benefits, life insurance, disability or death benefit plans that have more than 100 participants).	_____	_____	_____
813) Advise the client that any unpaid retirement plan contribution must be made before the due date of the return. Note contributions to defined benefit plans may have earlier due dates.	_____	_____	_____
814) Information returns:			
.1) Inquire whether the S corporation has filed all required Forms 1098, 1099 and 1042 and whether the value of the personal use of employer property, expense reimbursements under "unaccountable plans," and 401(k) deferred compensation information has been included in employees' Forms W-2. Note reporting requirements on certain payments made to attorneys.	_____	_____	_____
.2) Inquire if the taxpayer has complied with electronic filing requirements for Forms 1099 and W-2.	_____	_____	_____
.3) Inquire if additional items subject to employer FICA such as 401(k) deferrals, vested non-qualified deferred compensation, employer provided excess group term life insurance, all cash tips, etc., have been properly reported. Note FICA and FUTA do not apply to exercise of a statutory stock option after October 22, 2004. (AJCA 2004)	_____	_____	_____
.4) Determine that reimbursement of employee moving expenses and tuition and related expenses are properly reported.	_____	_____	_____
.5) Inquire whether club dues, spouse travel, employee stock options, restricted property (§ 83(b) election), etc., is treated as compensation and included on employee's Forms W-2.	_____	_____	_____
.6) Consider filing information returns relating to foreign partnerships and corporations.	_____	_____	_____

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2004 - FORM 1120S

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
815) Inquire as to whether employment taxes were timely deposited. (EFTPS)	_____	_____	_____
816) Determine that related party transactions are properly reported on all available returns.	_____	_____	_____
817) Consider informing client of requirement to file Form 8300 for certain payments received exceeding \$10,000.	_____	_____	_____
818) If the S corporation is a partner in a partnership, consider § 465 at risk and/or § 704(d) basis rules.	_____	_____	_____
819) If the corporation sold partnership interests during the year, determine:			
.1) That appropriate information was given to the partnership to enable it to prepare Form 8308.	_____	_____	_____
.2) That the required statement under Reg. § 1.751-1(a)(3) is attached if the partnership had § 751 assets.	_____	_____	_____
820) If the corporation acquired partnership interests during the year determine that the appropriate information was given to the partnership. Inquire if § 754 election is in effect.	_____	_____	_____
821) Record syndication costs treated as nondeductible expense or distribution in permanent file for write-off upon termination of partnership interest.	_____	_____	_____
822) Consider informing client of new rules on nonqualified deferred compensation arrangements for amounts deferred after December 31, 2004. (AJCA 2004)	_____	_____	_____
823) Note tax planning/additional service suggestions. (See Client Review for Additional Services.)	_____	_____	_____

COMMENTS OR EXPLANATIONS

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
2004—FORM 5500

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Verify that the current plan document, summary plan description, and adoption agreement, if applicable, are on file. Note the date of the latest amendment to the plan and the date of the latest plan document restatement.	_____	_____	_____
102) Verify that plan documents, amendments and adoption agreements, if applicable, were signed and approved by proper persons, noting date of signature.	_____	_____	_____
103) Review the plan sponsor/employer name, address, plan year, employer identification number, plan number, telephone number, and business code. Note changes from prior year.	_____	_____	_____
104) Review the plan administrator name, address, employer identification number and telephone number, and if they are different from those of the plan sponsor, note any variations. Note changes from prior year.	_____	_____	_____
105) Verify that a copy of IRS determination letter for the plan or IRS opinion letter for the prototype document is on file. If neither is available, obtain a representation from the plan's ERISA counsel that the plan is intended to satisfy the qualification requirements.	_____	_____	_____
106) Determine whether any plan amendments have been adopted since the date of the latest IRS determination letter, and if so, whether a summary of material modifications was furnished to participants and beneficiaries.	_____	_____	_____
107) If the latest IRS determination letter contains a caveat relating to proposed plan amendments submitted during the application process, determine whether such amendments were adopted within the remedial amendment period described in IRC § 401(b).	_____	_____	_____
108) Review prior year returns, reviewer comments, workpapers and correspondence files.	_____	_____	_____
109) Review plan name, effective date, and plan number; determine if the plan name as shown on the plan document is the same as shown on Form 5500 for the prior year and on the accountant's opinion.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
2004—FORM 5500

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
110) If the plan is a pension benefit plan and has been examined by the Internal Revenue Service or Department of Labor or both:			
.1) Obtain copies of the examination report and closing letter and any client correspondence.	_____	_____	_____
.2) Verify that examination adjustments have been entered on the plan's records.	_____	_____	_____
.3) If any examination adjustments affect the plan sponsor's income tax returns, consider preparation of amended returns for all tax years affected, or advise preparer of recommended changes.	_____	_____	_____
111) If the plan sponsor has changed its tax year-end, determine if the plan year has been, or should be, changed to correspond to the plan sponsor's new tax year.	_____	_____	_____
.1) Verify accuracy of short plan year filing.	_____	_____	_____
.2) Ensure that no filing is for a plan year which exceeds 12 months.	_____	_____	_____
112) Determine if the employer is a member of a controlled group of corporations or a member of a group of businesses under common control.	_____	_____	_____
113) Determine if the plan is subject to the multiemployer or multiple employer plan filing requirements.	_____	_____	_____
114) Review the plan document and summary plan description to identify benefits and features provided by or allowed under the plan (e.g., welfare benefits, fringe benefits, pension benefits, total or partial participant-directed accounts, participant contributions, master trust, frozen plan, floor-offset, or cash or deferred arrangements).	_____	_____	_____
115) Inquire if administrator of a pension benefit plan has a file of beneficiary designations and participant and spousal consent forms for benefit distribution options. (IRC § 417(e))	_____	_____	_____
116) Determine whether there are reporting requirements for investment arrangements that are direct filing entities (DFEs):			
.1) Common/Collective Trust (CCT).	_____	_____	_____
.2) Pooled Separate Account (PSA).	_____	_____	_____
.3) Master Trust Investment Account (MTIA).	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
2004—FORM 5500

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.4) 103-12 Investment Entity (103-12 IE).	_____	_____	_____
.5) Group Insurance Arrangement (GIA).	_____	_____	_____
117) Determine whether the plan holds assets that have a fair market value that is not readily determinable and, if so, whether an appraisal by an independent third-party appraiser is appropriate.	_____	_____	_____
118) Determine if any disaster relief provisions made available by the IRS, DOL or PBGC apply that would extend the due date for filing Form 5500.	_____	_____	_____
200) DETERMINE THE APPROPRIATE FORMS TO FILE			
201) Determine if the plan qualifies for exclusion from the Form 5500 filing requirements. Consider filing the applicable notice and statement with the Department of Labor for top hat, apprenticeship and training plans.	_____	_____	_____
202) Determine if additional schedules are required or would be beneficial:			
.1) Schedule A – Insurance Information.	_____	_____	_____
.2) Schedule B – Actuarial Information.	_____	_____	_____
.3) Schedule C – Service Provider Information. (Note: This schedule pertains to both current and former service providers and there are additional reporting requirements for a terminated accountant or actuary.)	_____	_____	_____
.4) Schedule D - DFE/Participating Plan Information.	_____	_____	_____
.5) Schedule E - ESOP Annual Information.	_____	_____	_____
.6) Schedule G – Financial Transaction Schedules.	_____	_____	_____
.7) Schedule H – Financial Information.	_____	_____	_____
(a) Schedule of Assets (Held at End of Year)	_____	_____	_____
(b) Schedule of Reportable Transactions	_____	_____	_____
.8) Schedule I – Financial Information—Small Plan.	_____	_____	_____
.9) Schedule P – Annual Return of Fiduciary of Employee Benefit Trust.	_____	_____	_____
.10) Schedule R – Retirement Plan Information.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
2004—FORM 5500

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.11) Schedule SSA – Annual Registration Statement Identifying Separated Participants With Deferred Vested Benefits.	_____	_____	_____
.12) Schedule T – Qualified Pension Plan Coverage Information.	_____	_____	_____
203) Determine if the following other attachments are required:			
.1) Audited financial statements.	_____	_____	_____
.2) Form 5558 – Extension of Time to File (or plan sponsor’s federal income tax extension form, if applicable, and if all requirements for reliance on plan sponsor’s federal income tax extension have been met).	_____	_____	_____
204) Determine that Pension Benefit Guaranty Corporation Form 1 (or Form 1-EZ) and Form 1-ES have been filed for a defined benefit pension plan:			
.1) Determine the appropriate plan year for which the filing is made (Form 1, Form 1-EZ and Form 1-ES are filed for the current year, whereas Form 5500 is filed for the preceding plan year).	_____	_____	_____
.2) Determine the filing due dates for Form 1, Form 1-EZ and Form 1-ES and for installment premium payments.	_____	_____	_____
.3) Determine if plan is subject to variable rate premiums.	_____	_____	_____
300) SPECIFIC PLAN CHARACTERISTICS			
ALL PLANS			
301) Ascertain the plan’s funding and benefit arrangements.	_____	_____	_____
302) Determine if the plan was established pursuant to one or more collective bargaining agreements.	_____	_____	_____
303) Determine if the plan is subject to bonding requirements, and if so, the amount of fidelity bond covering the plan.	_____	_____	_____
304) Determine if any person who rendered services to the plan received directly or indirectly \$5,000 or more in compensation from the plan during the plan year, and if so, compile the appropriate information to complete Schedule C, Part I.	_____	_____	_____
305) Determine if an accountant or an enrolled actuary who provided services to the plan was terminated during the plan year, and if so, compile the necessary information to complete Schedule C, Part II.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
2004—FORM 5500

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
306) If an accountant or an enrolled actuary who provided services to the plan was terminated during the plan year, determine if the required Notice To Terminated Accountant Or Enrolled Actuary was filed. A sample notice can be found in the Schedule C (Form 5500) instructions.	_____	_____	_____
307) Prepare Schedule G if during the plan year the plan:			
.1) Had loans (generally this does not include participant loans in a 401(k) plan if they are secured by the participant's vested account balance) or fixed income obligations due the plan that were in default or classified as uncollectible.	_____	_____	_____
.2) Had leases to which the plan was a party that were in default or classified as uncollectible.	_____	_____	_____
.3) Engaged in nonexempt transactions with respect to any party-in-interest, but not including failure to transmit to the plan the participant contributions or loan repayments (as clarified by DOL Advisory Opinion Letter 2002-02A) within the time period described in 29 CFR § 2510.3-102. Note that special reporting instructions for delinquent employee contributions or loan repayments are available at www.dol.gov/ebsa/faqs/faq_compliance_5500 . It is no longer a requirement to complete Schedule G with respect to this issue.	_____	_____	_____
308) Determine if the plan acquired individual whole life contracts during the plan year.	_____	_____	_____
PENSION BENEFIT PLANS ONLY			
309) Determine coverage requirements:			
.1) Review the plan's IRC § 410 coverage information.	_____	_____	_____
(a) Determine that either the ratio percentage test or the average benefit percentage test has been passed, or that an exception applies.	_____	_____	_____
(b) Determine if the plan is passing coverage under the substantiation guidelines. If the coverage test date is the last day of the plan year, verify that the figure for employees participating at the end of the plan year is consistent with the year-end participant figure in the participant census question.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
2004—FORM 5500

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
(c) Determine if all employees of the employer who are required to be aggregated are included as the starting point for coverage testing purposes.	_____	_____	_____
(d) Determine whether any employees may be excluded from coverage testing consideration due to:			
(i) their failure to meet the plan's age or service requirements;	_____	_____	_____
(ii) their being part of a collectively bargained group of employees;	_____	_____	_____
(iii) their being nonresident aliens who received no earned income from United States sources; or	_____	_____	_____
(iv) their having terminated after working less than 500 hours during the plan year, and not having been reemployed by the last day of the plan year.	_____	_____	_____
(e) Assure that leased employees have been properly considered. If the employer uses the services of a professional employer organization (PEO), determine how its employees are classified under the plan. See Rev. Proc. 2002-21.	_____	_____	_____
(f) Determine whether highly compensated employees have been properly identified.	_____	_____	_____
.2) Determine if separate lines of business, aggregation, disaggregation, or restructuring rules apply, and if so, whether each disaggregated portion of the plan satisfied the ratio percentage test or an exception.	_____	_____	_____
.3) If the employer intends to have the separate lines of business rules apply, determine if a qualified separate lines of business notification was made by filing Form 5310-A with the IRS.	_____	_____	_____
310) Determine if the plan contains a cash or deferred arrangement, and if so, whether the plan provides for employer contributions based on employee deferrals or contributions.	_____	_____	_____
311) Determine if the plan is integrated with Social Security, and if so, determine that permitted disparity requirements have been met.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
2004—FORM 5500

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
312) Determine if the plan was involved in a merger or consolidation into another plan or an asset or liability transfer or spin-off during the plan year. If so:			
.1) Determine the name of the other plan(s) involved, the employer identification number of the sponsor(s) and the plan number(s); and	_____	_____	_____
.2) Determine whether Forms 5310-A were required to be filed.	_____	_____	_____
313) Determine if the plan was top-heavy at any time during the last five plan years:			
.1) Determine whether key employees have been properly identified.	_____	_____	_____
.2) If the plan is top-heavy, determine whether top-heavy minimum benefit provisions and top-heavy vesting requirements have been applied properly.	_____	_____	_____
314) Determine that annual compensation of each participant taken into account does not exceed current year limitation.	_____	_____	_____
315) Determine if the employer/sponsor maintains other qualified pension benefit plans.	_____	_____	_____
316) Determine if the plan is a master, prototype, regional prototype or volume submitter plan.	_____	_____	_____
317) Determine the number of participants at the beginning of the plan year.	_____	_____	_____
318) Determine the number of participants at the end of the plan year as follows:			
.1) Active participants.	_____	_____	_____
.2) Retired or separated participants receiving benefits.	_____	_____	_____
.3) Retired or separated participants entitled to future benefits.	_____	_____	_____
.4) Deceased participants whose beneficiaries are receiving or are entitled to receive benefits (does not apply to welfare plans).	_____	_____	_____
.5) Participants with account balances (does not apply to defined benefit plans or welfare plans).	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
2004—FORM 5500

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) Participants who terminated employment during the plan year with accrued benefits that were less than 100% vested (does not apply to welfare plans).	_____	_____	_____
400) REPORTING FINANCIAL ACTIVITY			
ALL PLANS			
401) Determine if the plan generates \$1,000 or more of unrelated business income and must file Form 990-T. Inquire as to whether unrelated business income has been earned by a pass-through entity in which the plan has invested.	_____	_____	_____
402) Determine if the plan is required to file information returns for distributions, retirement pay or P.S. 58 costs.	_____	_____	_____
403) Determine if Form W-2 has been marked to indicate employees are participating in a qualified retirement plan.	_____	_____	_____
PENSION BENEFIT PLANS ONLY			
404) Prepare a reconciliation of contributions made to the plan, deductions claimed on the sponsor's income tax return, and contributions recorded by the plan according to the trustee's records.	_____	_____	_____
405) Identify any contributions (designated as contributions for the plan year) made after the plan year-end, but before the due date of the employer's income tax return, including extensions of time to file.	_____	_____	_____
406) Determine if participant contributions and participant loan repayments were timely remitted to the plan. If not, additional information may need to be presented on Schedule H, Part IV or Schedule I, Part II and disclosed in the plan's financial statements, if applicable. Additionally, Form 5330 may have to be filed with the IRS, and plan participants may be entitled to lost earnings.	_____	_____	_____
407) In the case of a defined benefit plan:			
.1) Review Schedule B and determine whether there is a funding deficiency, and if so, advise the plan sponsor.	_____	_____	_____
.2) Confirm that the contributions shown on Schedule B correspond to the contributions made for the plan year.	_____	_____	_____
408) Prepare Form 5330 (relating to excise tax) if there is an accumulated funding deficiency or a nondeductible contribution to a qualified plan.	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
2004—FORM 5500

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
409) Determine if there has been any reversion of plan assets to the employer, and if so, prepare Form 5330.	_____	_____	_____
410) Determine whether immediate distributions to plan participants and beneficiaries are in compliance with the \$5,000 <i>de minimis</i> rules and related plan provisions.	_____	_____	_____
411) Determine that contributions made or benefits accrued during the plan year are in compliance with IRC § 415 limits.	_____	_____	_____
412) Determine if the plan has made distributions of benefits to participants and beneficiaries as prescribed by the minimum distribution requirements of IRC § 401(a)(9).	_____	_____	_____
413) Determine that, in the case of plan distributions with respect to married participants, the joint and survivor annuity requirements and preretirement survivor annuity requirements of IRC §§ 401(a)(11) and 417 have been met.	_____	_____	_____
414) Determine that written explanations regarding rollover-eligible distributions have been provided in accordance with IRC § 402(f).	_____	_____	_____
415) Determine that income tax withholding requirements of IRC § 3405 (and applicable state or local income tax withholding requirements) have been met with respect to distributions not rolled over to an eligible retirement plan, and that Form 945 has been filed.	_____	_____	_____
416) Determine if refunds of contributions were required to pass the ADP/ACP test, and	_____	_____	_____
.1) If so, determine if they were made within two-and-one-half months after the close of the plan year, or	_____	_____	_____
.2) If not, prepare Form 5330.	_____	_____	_____
500) PENALTIES			
501) Determine the correct due date of Form 5500. Failure to file a Form 5500 on a timely basis is subject to an IRS penalty of \$25 per day (up to \$15,000) and a DOL penalty of \$50 per day (up to \$30,000).	_____	_____	_____
502) Consider other applicable penalties, such as:			
.1) Failure to file a registration statement (Schedule SSA) (\$1 per day for each participant, up to \$5,000).	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
2004—FORM 5500

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Failure to file an actuarial statement (Schedule B) (penalty of \$1,000).	_____	_____	_____
.3) Failure or refusal to file a complete Form 5500 (up to \$1,100 per day).	_____	_____	_____
.4) Failure to report a change of plan status (\$1 per day per participant up to \$1,000).	_____	_____	_____
600) OTHER REQUIREMENTS			
601) Consider notifying the Plan Administrator of requirements related to:			
.1) Distribution to each participant of the plan's summary annual report.	_____	_____	_____
.2) The availability of the current summary plan description and any applicable summary of material modifications and the distribution thereof to participants on a timely basis.	_____	_____	_____
.3) Preparation and distribution of the statements of participants' accrued benefits.	_____	_____	_____
.4) Preparation and distribution of statements of deferred vested benefits to separated employees.	_____	_____	_____
602) If the employer maintains a profit-sharing plan or stock bonus plan and has not made the maximum deductible contribution for the plan year, calculate the pre-1987 contribution deduction carryforward amount.	_____	_____	_____
603) In the case of a qualified plan with loan provisions, ascertain that all loans were made in accordance with plan provisions, and in particular were in compliance with the following:			
.1) the five-year requirement or the home loan exception (IRC § 72(p)(2)(B));	_____	_____	_____
.2) the dollar limitations (IRC § 72(p)(2)(A));	_____	_____	_____
.3) the quarterly amortization requirement (IRC § 72(p)(2)(C));	_____	_____	_____
.4) the spousal consent requirement (IRC § 417(a), ERISA § 205(c), Reg. § 1.401(a)-20, Q&A 24);	_____	_____	_____
.5) the reasonably equivalent availability requirement (IRC § 4975(d)(1)(A), ERISA § 408(b)(1)(A));	_____	_____	_____

EMPLOYEE BENEFIT PLAN RETURN/REPORT CHECKLIST
2004—FORM 5500

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) the reasonable rate of interest requirement (IRC § 4975(d)(1)(D), ERISA § 408(b)(1)(D)); and	_____	_____	_____
.7) the adequate security requirement. (IRC § 4975(d)(1)(E), ERISA § 408(b)(1)(E))	_____	_____	_____
604) Determine that plan loans were not made to sole proprietors, certain partners or shareholders unless the plan was amended to remove the prohibition of plan loans effective for loans made after December 31, 2001.	_____	_____	_____

COMMENTS OR PLANNING

MARKET SEGMENT SPECIALIZATION PROGRAM AUDIT TECHNIQUE GUIDE

INTRODUCTION

Market Segment Specialization Program Audit Technique Guides were developed by the Internal Revenue Service for reference by revenue agents and tax auditors. These guides contain examination techniques, common and unique industry issues, business practices and other information.

Guides currently available are listed subsequently. Guides available through the internet are indicated by an (I) and are available at:

Internet address: <http://www.irs.gov/foia> At the website click on Electronic Reading Room and then click on “Market Segment Specialization Program (Audit Techniques Guides).”

Guides currently in print are available from the Superintendent of Documents and are indicated by an (S). These may be obtained as follows:

Order Inquiries: Contact the GP Order Desk, 7:30 a.m. to 9:00 p.m. EST, Monday through Friday (except Federal holidays) at:
Toll-Free: 1-866-512-1800
DC Area: 202-512-1800
E-Mail: orders@gpo.gov
Fax: 202-512-2250

(ATG) - Indicated Audit Technique Guide

Alaskan Commercial Fishing

— Catcher Vessels (I) (S)

— Processors and Brokers (I) (S)

Alternative Minimum Tax for Individuals (I) (S)

Architects (I) (S)

Artists and Art Galleries (I) (S)

Attorneys (S)

Auto Body and Repair Industry (I) (S)

Auto Dealerships (I) (S)

Aviation Tax (I) (S)

Bail Bond Industry (I) (S)

Bars and Restaurants (I) (S)

Beauty and Barber Shops (I) (S)

Bed and Breakfasts (I) (S)

Business Consultants (ATG) (I)

Carpentry/Framing (I) (S)

Carwash Industry (I) (S)

Child Care Providers (I) (S)

Coal Excise Tax (I) (S)

Commercial Banking (I) (S)

Commercial Printing (I) (S)

Computers, Electronics and High

Technology (I) (S)

Construction Industry (I) (S)

Drywallers (I) (S)

Entertainment:

— Important 1040 issues (I) (S)

— Music Industry (I) (S)

Farm Hobby Losses (ATG) (I)

Farming-Specific Income Issues and Farm
Cooperative (I) (S)

Furniture Manufacturing (I) (S)

Garden Supplies (I) (S)

Garment Contractors (I) (S)

Garment Manufacturers (I) (S)

Gas Retailers (I)

General Livestock (I) (S)

Grain Farmers (I) (S)

Hardwood Timber Industry (I) (S)

Independent Used Car Dealers (I) (S)

The Laundromat Industry (I) (S)

Lawsuit Awards and Settlements (I) (S)

Low Income Housing Credit (I) (S)

Manufacturing Industry (I) (S)

Masonry and Concrete Industry (I) (S)

Ministers (I) (S)
Mobile Food Vendors (I) (S)
Mortuaries (I) (S)
Net Operating Losses for Individuals (S)
Oil and Gas Industry (I) (S)
Partnerships (I)
Passive Activity Losses (I) (S)
Pizza Restaurants (I) (S)
Placer Mining (I) (S)
Poultry Industry (I)
The Port Project (I) (S)
Reforestation Industry (I) (S)
Rehabilitation Tax Credit (I) (S)
Retail Gift Shop (I)
Retail Liquor Industry (I) (S)
Scrap Metal Industry (I) (S)
Shareholder Loan (ATG) (I)
Sports Franchises (I)(S)
Swine Farm Industry (I)
Taxicabs (I) (S)
Tobacco Industry (I) (S)
Tour Bus Industry (I) (S)
Trucking Industry (I) (S)
Veterinary Medicine (I) (S)
Wine Industry (S)

SAMPLE IRS CORPORATE AUDIT FORMAT

INTRODUCTION

The following questions are samples of those that may be asked during the interview and examination process of tax returns. They are not intended to be all-inclusive. Tax examiners for the Internal Revenue Service are encouraged to use their own judgment. As a result, the scope of their examination may be expanded depending on the responses to these general questions. The purpose of these sample questions is to assist in the preparation for an examination. It is advisable that the tax practitioner determine the intent of the questions and prepare accordingly.

I. AGENT'S NOTIFICATION TO TAXPAYER/REPRESENTATIVE

Appeal Rights (Publication 5)
Privacy Act Notice (Notice 609)

II. INFORMATION THE REVENUE AGENT MAY REQUEST FROM THE TAXPAYER/REPRESENTATIVE

GENERAL:

Tax returns previously audited and results
Telephone numbers of corporate office and representative office
Properly executed Power of Attorney
Verification of TIN per return
Verification of address per return
Name of tax return preparer and fee charged
Extent of services provided by preparer
Copies of tax returns from open tax years not under audit
Copies of externally and internally prepared financial statements
Copies of most recent IRS determination letter for all qualified retirement plans
Copies of any amendments or tentative carrybacks filed in the last three years
Corporate minute book and stock records
Currency Transaction Reports (Form 8300)

CORPORATE OFFICER(S) AND SHAREHOLDER(S):

Name(s)
Title(s)
Ownership %(s)
Recent changes in ownership
Copies of shareholder(s) individual tax returns for period under audit
S corporation shareholder basis computations.

SAMPLE IRS CORPORATE AUDIT FORMAT

III. QUESTIONS THE REVENUE AGENT MAY ASK THE TAXPAYER/REPRESENTATIVE

RELATED ENTITIES:

Does the corporation own stock in any other closely held corporation(s)? If so, what is the legal domicile?

Do any shareholders own stock in any other closely held corporations(s)?

Does the corporation own an interest in any other closely held business entity (e.g., partnership and joint ventures)? If so, what is the legal domicile?

Does the corporation provide services to or obtain services from a closely held corporation?

Does the corporation sell products to or buy products from a closely held corporation?

BUSINESS HISTORY:

When was the corporation last examined by the IRS, state or local taxing authority? Describe adjustments, if any.

What are the business activities of the corporation?

How long has the corporation been in operation?

When was the corporation formed? Was it a new business, or was it a continuation of a business conducted in another form?

What was contributed to capital at incorporation?

What are the duties of each officer and shareholder?

Does the corporation conduct operations at any location other than the address on the return? If yes, describe.

Have there been any unusual or extraordinary events during the last three years (e.g., bankruptcy reorganizations, acquisitions or dispositions, decline in income due to casualty, loss of prime supplier or customers, or other economic business conditions)?

Does the corporation anticipate any significant expansion or addition of capital improvements? Are there related accumulated retained earnings issues?

Has there been a major expansion or remodeling of the corporate building and/or facilities in recent years? Who owns the corporate building? Copies of leases?

Are there any legal actions pending against the corporation?

What is the corporation's policy relative to dividends?

Has the corporation engaged in any bartering activity? With whom?

Did the corporation either directly or indirectly pay any kickbacks?

What is the corporation's policy regarding collection of bad debts?

If this is an S corporation, is a copy of the S election available?

CORPORATE TRANSACTIONS:

Are sales cyclical?

Who are the corporation's major suppliers? Copies of vendor agreements?

Who are the corporation's major customers?

Does the corporation extend credit? If so, what are the terms?

SAMPLE IRS CORPORATE AUDIT FORMAT

Does the corporation offer discounts? If so, how are they recorded?
Does the corporation provide refunds, credits, or other consideration to new or old customers for adding its products to their inventory?
Does the corporation purchase goods on credit?
Does the corporation normally take advantage of discounts? If so, how are they recorded?
Did the corporation sell any assets during the year under examination?
Did the corporation trade in any assets during the year under examination?
Does the corporation participate in any cooperative advertising with its customers?
Did the corporation engage in listed tax shelter transaction?
Are all fixed assets shown on the corporate books still in service? If not, how were the assets disposed of?

PAYROLL AND RELATED:

What are the company's payroll procedures (e.g., separate bank account, outside agency)?
How is the compensation of the officers and shareholders determined? Employment contracts?
What method(s) of compensation does the corporation use (e.g., salary, bonus, commission)?
What is the company's policy relative to bonuses? Are they recorded in the minutes?
How many full-time and part-time employees does the corporation employ?
Are there any seasonal employees?
Have any employees performed personal services for any officers or shareholders?
To what extent does the corporation use contract labor?
Have all required information returns been filed? Copies?
Are any immediate family members or close relatives of the officers or shareholders employed by the corporation?
What fringe benefits are provided to the employees and officers (e.g., health insurance, life insurance, reimbursed travel and moving expenses, discount on purchases, profit sharing plan, 401(k) or other retirement plan, whether qualified or unqualified, medical reimbursement plan, other)?
Do the fringe benefits provided to the rank-and-file employees differ from those provided for shareholders and officers?
Has the corporation filed all required retirement plan/employee benefit plan returns? Copies?
Does the corporation intend to terminate any retirement or welfare benefits plans?
Does the corporation have any stock option plans? Have any options been exercised?
Are there any non-qualified compensation agreements?
Has the corporation filed all applicable federal employment tax returns?
Are there any outstanding tax liabilities?

TRAVEL AND ENTERTAINMENT:

What is the company's policy regarding travel and entertainment reimbursement?
Does the corporation provide shareholders, officers, and/or related family members with any of the following:

- Credit cards?

SAMPLE IRS CORPORATE AUDIT FORMAT

- Club dues?
- Club memberships?

VEHICLES:

Does the corporation own or lease any automobiles, trucks, RVs, airplanes, boats, or other vehicles?

How are these vehicles used in the business?

Are vehicle usage logs maintained?

Does the corporation restrict the use of these vehicles?

How does the corporation account for personal use of company vehicles?

Does the corporation own any trucks that are subject to the highway use tax?

BANKING:

Where does the corporation maintain bank accounts (e.g., checking, savings, certificates of deposit, foreign accounts, money market investments)?

What is the purpose of each account?

What loans were outstanding during the tax year? Describe the purpose(s), terms, and activity for each. Obtain copies of any loan agreements.

Does the corporation maintain brokerage/investment accounts?

How often are bank statements reconciled to the books and records? Provide copies of bank reconciliations.

INVENTORY:

What method of valuation does the corporation use?

Has the corporation ever changed its method of valuing inventory?

If required, is the corporation in compliance with section 263A? Review calculation and worksheets.

How often is physical inventory taken and by whom?

Does the corporation maintain perpetual inventory records?

Is the cost system integrated into the accounting system?

Do any employees, officers, or shareholders make personal withdrawals from inventories?

To what extent is the company's inventory insured and with whom?

Does the company utilize receiving reports?

How are returned goods handled?

What was the basis for the write-down of the company's inventory?

What length of time does it take to process goods from start to finish?

ACCOUNTING SYSTEM:

What type of books and records are maintained (e.g., general ledger, journals, subsidiary ledgers, etc.)?

SAMPLE IRS CORPORATE AUDIT FORMAT

Who is responsible for the following activities:

- General bookkeeping?
- Cash receipts?
- A/R?
- A/P?
- Recording sales? Credit memos?
- Purchases?

Who is responsible for writing and endorsing checks? Are multiple signatures required?

What method of accounting is used?

Has there been a change in the company's accounting method within the last three years?

If so, does the corporation have IRS approval?

INTERNAL CONTROLS:

How are cash sales handled?

Who opens the mail?

Who reconciles the corporate bank accounts?

Who makes the deposits?

How often are deposits made?

What percentage of receipts are deposited?

Does the corporation keep any large amounts of cash on hand?

What percentage of the company's income is received in each of the following forms:

- Checks?
- Cash?
- Charges?
- Other?

At what point are company sales recorded (e.g., date ordered, date invoice cut, date shipped)?

How is a sale accounted for from initial contact with the customer through completion of the transaction?

How does the company record returns and allowances? Are debit memorandums issued?

Does the company maintain a petty cash fund? If yes:

- What is the normal balance in this fund?
- What type of disbursements are made from the fund?
- Who approves expenditures?
- How is the fund replenished?

How does the corporation record the expenses it incurs through payment? Does the corporation make any cash expenditures?

What does the company do with voided checks?

What is the corporation's policy with regard to aging accounts receivable? What is the company's policy regarding the write-off of uncollectible accounts? Does the corporation have any scrap sales?

Who authorizes the purchase of major items?

What is the corporate policy for expensing vs. capitalizing items?

How does the company treat prepaid expenses and accrued expenses for tax purposes?

How does the company treat prepaid and accrued expenses for tax purposes?

SAMPLE IRS CORPORATE AUDIT FORMAT

Did the corporation record any liabilities which were contingent on some future event? What cut-off procedures does the corporation perform at year-end regarding accounts receivable, accounts payable, and inventory?

RELATED PARTY TRANSACTIONS:

Did the corporation have any transactions with a corporate shareholder, officer, or family member?

Did the corporation distribute any assets or liabilities to a corporate shareholder, officer or family member?

Were there any loans or advances to or from a corporate shareholder, officer, or family member? If yes:

- Is there a signed note?
- What interest rate was charged?
- What repayments have been made?

If there were any loans or advances to or from any related entity, were the transactions handled at arm's-length?

Are personal funds of shareholders and officers kept separate from corporate funds?

MINUTE BOOK:

Is a corporate minute book maintained? If so:

- Is it up to date?
- Who is responsible for updating?
- Do the minutes address pension plan contributions?
- Do the minutes address employee benefits?

Are officers' compensation and bonuses approved in the minutes?

Are loans properly considered and approved in the minutes?

Do the minutes address employee bonuses?

Do the minutes address company expansion?

Do the minutes address other considerations necessitating the retention of pro???

OTHER QUESTIONS:

Does the tax return include all income earned by the corporation?

After having had time to review the return since contacted by the IRS, is the taxpayer/representative aware of any additional deductions, erroneous deductions, or any omissions of income contained therein?

If this is an S corporation, which shareholders meet the material participation requirements?

Does the corporation have an interest in a foreign entity or foreign bank or investment accounts?

OIL AND GAS PRACTICE GUIDE

This practice guide is intended to assist income tax return preparers in reporting the amounts included on Forms 1099 and K-1 with respect to individual taxpayers receiving income from the sale of oil and gas reserves. This guide covers the basics of oil and gas taxation and does not necessarily address the more complex issues of this particular area.

This guide is segmented into two parts. The first is a narrative discussion of certain oil and gas definitions and tax concepts. The second contains specific return applications.

OIL AND GAS PRACTICE GUIDE

I. Types of Oil and Gas Interest and Payments

A. Non-Operating Interests

1. Royalty Interests

A royalty interest holder possesses the right to a specific portion (generally expressed as a fraction or a percentage) of the revenue from the sale of oil and gas reserves. The holder of this interest generally is not required to bear any portion of the cost of development or operation of the oil and gas property. However, a royalty interest holder generally must bear his or her share of production taxes including such state and local severance taxes, ad valorem taxes, and gathering and handling charges. Generally, the production taxes assessed against a royalty interest holder are withheld by the purchaser of the oil and gas. Thus, the royalty interest holder generally receives payments from the purchasers which are net of production taxes.

2. Net Profits Interests

A net profits interest holder is entitled to a specific share of the gross production from the property measured by the net profits from the operation of the property. Generally, the costs considered in determining the “net profit” from a property can be distinctly defined with respect to each such interest. If there is no net profit (as defined) from the property, the holder of the net profits interest receives no payments; however, the holder is also not liable to pay for any share of the net loss. Once the property has a net profit (as defined), the holder of the net profits interest receives payments representing his or her share of that net profit amount.

B. Operating Interests

An operating interest (also known as a working interest) constitutes a right to the oil and gas reserves in place that entitles the holder to a specific portion of the revenue arising from the sale of the oil and gas reserves and that is also burdened with the costs of development and operation of the oil and gas property. In addition, like a non-operating interest, an operating interest must bear its share of the production taxes. Thus, the operating interest holder generally receives payments from the purchaser which are net of production taxes. In most instances the operating interest holder pays the cost of operating the oil and gas property directly. However such operating costs may also be withheld by the disburser causing the payment to the operating interest holder to be net of such costs.

C. Other Payments

Several other types of payments are commonly made to the holders of oil and gas interests which are not directly made for the sale of oil and gas reserves. Included below is a short description of some of those payments.

1. Lease Bonuses

In many instances, operating interests are leased rather than acquired as a fee interest. Generally, the lessor receives an up-front payment (lease bonus) from the lessee for the right to enter into the lease.

2. Delay Rentals

Often oil and gas mineral interests are held in the form of a lease which has an expiration date. Delay rentals are paid for the privilege of holding the lease prior to the date of development of the underlying reserves. These payments are generally made by the operating interest owner to the lessor.

3. Damages

In some cases, payments (damages) are made to landowners for damages to the land surface or crops on that surface. These payments are generally made by the operating interest owner to the owner of the surface rights.

4. Shut-Ins

In some cases, leases provide for payments of shut-in royalties (shut-ins) where a producing well has been drilled but the underlying reserves are not being produced for some reason. These payments are generally made by the operating interest owner to the lessor.

II. The Depletion Concept

The removal of a mineral from its natural reservoir diminishes the quantity remaining in the reservoirs until the recoverable supply ends. Depletion, for Federal tax purposes, depends not upon production of a mineral but upon its sale. The legislative history of depletion indicates that percentage depletion is intended to allow a tax-free recovery of value (whether or not in excess of basis) so that incentives would exist for exploration and development of new oil and gas reserves.

Only the owner of an economic interest is entitled to depletion on the income derived from production and sale of minerals from a property. The owners of mineral interests, royalties, working interests, net profits interests or other production payments possess an economic interest and are entitled to depletion for tax purposes. The Code provides for two methods of computing the depletion allowance; cost and percentage depletion. The taxpayer is not given an election to compute his depletion one way or the other, but must compute depletion both ways and claim the larger of two sums. An example of a depletion schedule is included below. The following descriptions define various depletion terms:

A. Cost Depletion

Depletion computed on the units of production method and limited to the taxpayer's basis in the property. The cost depletion formula is:

$$\frac{(\text{Adjusted basis of mineral interest at end of period}) \times (\text{Units sold during the year})}{(\text{Units remaining at end of period} + \text{units sold during the period})}$$

B. Percentage Depletion (sometimes called Statutory Depletion)

Depletion computed on a predetermined statutory percentage (currently 15%) of gross income according to § 613A. The depletion allowance is subject to the 100% of net income limitation of the property and the 65% of taxable income limitation of § 613A(d). Reg. § 1.613-5 addresses the calculation of "net income" from the property for purposes of the 100% limitation. In addition, § 613A(d)(5) excludes amounts received as a lease bonus from eligibility for percentage depletion.

C. Tentative Depletion

The greater of cost or percentage depletion on a property by property basis after the application of the per barrel limitation of § 613A(c) but before the 65% of taxable income limitation of § 613A(d).

D. Allowable Depletion (sometimes referred to as sustained or tax depletion)

The greater of percentage depletion after the application of the 65% of taxable income limitation of § 613A(d) or cost depletion. The amount of depletion deductible on the face of the tax return. The amount serves to reduce the taxpayer's basis in the mineral interest to zero. The deduction is not limited to the basis in the mineral interest.

E. Percentage Depletion on Marginal Production

OBRA '90 increased the percentage depletion rate for qualifying interests in marginal oil and gas wells provided the reference price is less than \$20 per barrel. Marginal production includes crude oil and natural gas produced from a domestic stripper well property and heavy oil from a domestic property. A stripper well property is any oil and gas producing property that produces a daily average of 15 barrels (6 MCF of gas = 1 barrel of oil) or less per well. Heavy oil is oil with a weighted average gravity of 20 degrees API or less, corrected to 60 degrees Fahrenheit.

The 100% taxable income limit for the deduction for percentage depletion on marginal properties is temporarily suspended for taxable years beginning after 1997 and before 2006 (WFTRA 2004).

Depletion Rates for Marginal Production have been as follows:

1999 – 24%
 2000 – 19%
 2001 – 15%
 2002 – 15%
 2003 – 15%
 2004 – 15%

F. Example

Depletion Schedule Operating Interests

Lease Name	Gross Income	Severance Tax	LOE	Depreciation	*Allocated Overhead	Net Income Before Depletion	Percentage Depletion (15%)	Cost Depletion	Allowable Depletion
Smith	2,000.00	141.70	250.00	100.00	277.77	1,230.53	300.00	250.00	300.00
Jones	4,000.00	283.40	450.00	125.00	555.56	2,586.04	600.00	700.00	700.00
Russell	10,000.00	708.50	650.00	300.00	1,388.89	6,952.61	1,500.00	1,100.00	1,500.00
Johnson	20,000.00	1,417.00	1,500.00	450.00	2,777.78	13,855.22	3,000.00	4,000.00	4,000.00
Totals	36,000.00	2,550.60	2,850.00	975.00	5,000.00	24,624.40	5,400.00	6,050.00	6,500.00

Overhead Expenses

Rent	2,500.00
Legal & Professional	350.00
Supplies	250.00
Utilities	1,500.00
Insurance	100.00
Auto	300.00
Total	5,000.00

* Overhead allocated = (Total Overhead ÷ Total Gross Income) x (Gross Income from Property)

III. Tax Credits

A. Nonconventional Fuel Credit (§ 29)

This non-refundable income tax credit of \$3 per barrel of oil equivalent is available for sales of qualified fuels. The intent of the credit is to give producers of alternative fuels some protection against significant decreases in the average well head price with which alternative fuels typically compete. Thus, the credit is based on the qualified fuels barrel-of-oil equivalence, and phases out as the average wellhead price of domestic oil rises from \$23.50 to \$29.50, adjusted for inflation. This credit is limited to regular tax reduced by other tax credits. It may not be carried forward or back to another year if unused. However, if the allowable credit is limited because of alternative minimum tax, the unused portion may increase the carry forward of credit for prior year's minimum tax as provided by § 53(d). Qualified fuels generally include oil produced from shale and tar sands;

gas produced from geopressurized brine, Devonian shale, coal seams, or a tight formation, or biomass; and liquid, gaseous, or solid synthetic fuels produced from coal (including lignite), including such fuels when used as feedstocks. The \$3 per barrel amount is adjusted for inflation each calendar year with one exception. In the case of gas from a tight formation the \$3 amount is not adjusted. The adjusted per barrel credit amount was \$6.00 in 1999, \$6.14 in 2000, \$6.28 in 2001, \$6.35 in 2002, and \$6.40 in 2003. This credit relates to production sold before January 1, 2004. The preceding calendar year's inflation adjustment is required to be published not later than April 1 of each calendar year. Both operating and non-operating interest owners may claim this credit.

B. Enhanced Oil Recovery Credit (EORC) (I.R.C. § 43)

§ 43 currently provides a 15% tax credit for certain costs paid or incurred in a qualified enhanced oil recovery project. Only taxpayers owning an "operating interest" in the project may claim the credit. Any deduction allowable for costs taken into account in computing the credit is reduced by the amount of the credit attributable to such credit. This credit is a component of the general business credit and as such may be carried back one year and carried forward 20 years.

IV. Intangible Drilling Costs (IDC)

The major portion of the costs incurred in drilling an oil and gas well does not result in the acquisition of tangible property having a salvage value. These expenditures are classified as intangible drilling costs. The Code requires the Treasury to issue regulations to grant taxpayers the option of deducting as ordinary and necessary business expenses the IDC for oil, gas, or geothermal wells. Under Reg. § 1.612-4(a), only owners of operating interests may take advantage of this option if such owners actually bear such costs. When a taxpayer deducts such expenses on his or her return he or she is deemed to have made the election. This is a once in a lifetime election and is effective for all subsequent years with regards to a specific property, as it is a property by property election. With respect to "prepaid IDC," certain conditions must be met before deducting such payments if the drilling activity does not commence until a subsequent tax year. A taxpayer may generally deduct only the IDC applicable to the taxpayer's working interest revenue share during the full pay out period; any excess must be treated as additional lease acquisition rent. Partnerships and special allocation provisions are often used to avoid this capitalization.

Oil and Gas Tax Practice Guide

Return Applications

I. Informational Return - Form 1099-MISC

A. Royalties & Net Profits Interest (Non-operating interests)

1. Criteria:

Every person who receives royalties (or similar amounts, including amounts from net profits interest) aggregating \$10 or more during any calendar year should receive an information return.

2. Forms:

Form 1099-MISC, Statement for Recipients of Miscellaneous Income, is used to report the required information and the gross aggregate amount of payments before deduction of withheld tax. Royalty payments should be recorded in Box 2 marked "Royalties." Net profits interest are often reported in the Royalties box.

3. Federal Income Tax Return Reporting

a. Schedule E Reporting

Generally, all income reported on Form-1099 MISC Box 2 with respect to non-operating oil and gas interests held directly by individual taxpayers should be reported in Part I of Schedule E.

b. Computation of Depletion

The recipient of income from oil and gas non-operating interests should generally record a deduction for depletion computed under either the cost depletion method or the percentage depletion method. Note that only certain producers and only certain production quantities qualify for percentage depletion deductions. Also, percentage depletion is subject to several computed limitations. § 613A should be consulted to determine if the taxpayer is eligible for percentage depletion deductions. The computed depletion deduction should be reported on Line 20 of Schedule E.

c. Passive Income (Loss) Rules

Oil and gas royalties and net profits interests will generally constitute portfolio income unless the trade or business exception applies.

d. Self-Employment Taxes

Generally, income or losses arising with respect to non-operating interests are not considered for purposes of computing self-employment taxes.

B. Operating Interests And Other Payments

1. Criteria:

Any individual who holds an oil and gas operating interest and who receives, in a calendar year, \$600 or more from the sale of oil and gas reserves from a single payor with respect to that interest should receive a Form 1099-MISC from each such payor. Also, individuals who receive, in a calendar year, \$600 or more from payments of Delay Rentals, Lease Bonuses, Damages or Shut-Ins should receive a Form 1099-MISC from each such payor.

2. Forms:

The required information is to be reported on Form 1099-MISC. The aggregate gross amount of payments before deduction of withheld tax to each recipient must be reported. The proper box on Form 1099-MISC in which to record payments depends on the type of payment being made. Reporting of the oil and gas payments discussed in this section should be reported in the box labeled "Nonemployee Compensation." However, delay rental payments may be recorded in the box labeled "Rents".

3. Federal Income Tax Return Reporting

a. Schedule C & E Reporting

Generally, all income reported on Forms 1099-MISC with respect to operating oil and gas interests held directly by individual taxpayers should be reported on Schedule C (Form 1040), with gross income and withheld expense amounts reported in the appropriate lines on the form.

The proper place to report receipts for lease bonus, delay rentals, shut-ins and/or damages generally depends on the individual's particular situation. In general terms, if the individual actively conducts a trade or business in the oil and gas industry, these payments should be reported on Schedule C. Alternatively, Schedule E reporting would most likely be appropriate (except for damages) in cases where the individual is not an active participant in the oil and gas industry. Damages should be reported in the same manner that other non oil and gas income from the surface rights would be reported (e.g., ordinary income, capital gain or non-taxable reduction of basis depending on the nature of the damage payment).

b. Computation of Depletion

The recipient of income from oil and gas operating interests generally should record a deduction for cost or percentage depletion. See the discussion under non-operating interests for additional information. The computed amount should be reported on line 12, Part II of Schedule C.

c. Self-Employment Taxes

Generally, income or loss reported with respect to an oil and gas operating interest directly held by an individual is considered self-employment income or loss and should be included in the computation of self-employment taxes on Schedule SE. Taxpayers have argued against this presumption in the courts with limited results.

d. Passive Income (Loss) Rules

The passive income (loss) rules provide that income or loss arising from oil and gas operating interests held directly by individual taxpayers generally should not be treated as income or loss from passive activities.

C. Filing Dates:

Form 1099-MISC copies to individuals by January 31 of the following year.

Forms 1096 and 1099-MISC with the IRS by February 28 of the following year. State requirements vary. (Note the electronic/magnetic media filing requirements if the number of 1099s exceed 249 recipients. The due date for electronically-filed 1099s is March 31st.)

II. Pass-Through Entities' K-1s

A. "Tax Only" Partnerships

The large majority of oil and gas wells are drilled and operated in joint venture arrangements. Some of these joint ventures elect not to file partnership tax returns but others report income or losses for Federal income tax purposes as partnerships. Some of the partnerships are actual legal entities and some of the partnerships are "tax only" partnerships. "Tax only" partnerships are partnerships recognized for income tax purposes only and have no legal status as a separate entity. Hereinafter, legal and "tax only" partnerships will not be distinguished for purposes of this discussion. Various states now allow formation of limited liability companies which may qualify as a partnership for tax purposes.

B. Reporting of Income and Losses from Pass-Through Entities

Income or losses arising from oil and gas properties held by pass-through entities are recorded in returns filed with the IRS. The entity should supply each owner/beneficiary a Schedule K-1 which reports his or her share of the total entity income or losses. Federal income tax return reporting is as follows:

1. Schedule E Reporting

Royalty income is reported on page 1 of Schedule E. Other items are reported on the Schedule E, page 2. The K-1 reports the necessary information to allow each owner/beneficiary to compute its own allowable depletion. IDC's are passed through to allow each partner to make his or her own decision as to expensing options. Credit amounts are also passed through to be reported on each owner/beneficiary's return.

2. Passive Income (Loss) Rules

Royalty income constitutes portfolio income. Members of LLCs must meet material participation standards to obtain active status for operating interests. However, limited partners and shareholders of S Corporations will be considered "passive" on all oil and gas interests owned within limited partnerships and S Corporations.

3. Self-Employment Taxes

General partners and active members of LLCs are subject to self-employment income on operating interests.

III. Tax Credits

A. Non-conventional Fuels Credit (§ 29)

There is not an IRS form to be used to compute the § 29 credit, however, a schedule showing the computation should be attached. For individuals, there is not a separate line on Form 1040 to report the credit. According to the Form 1040 instructions, Box C should be checked and "FNS" should be entered on the line next to Line 52 where the amount of the credit is entered. The amount should be combined with the amounts on Lines 44 through 52 to arrive at total credits entered on Line 53. (These line numbers reference the 2003 forms. Please note that this credit is for production sold before January 1, 2004.)

B. Enhanced Oil Recovery Credit

This credit is entered on Form 3800.

IV. Alternative Minimum Tax (AMT) Preferences

The Comprehensive National Energy Policy Act of 1992 repealed the minimum tax preferences for depletion and IDCs of independent oil and gas producers and royalty owners for taxable years beginning after 1992. The repeal of the IDC preference may not, however, result in the reduction of the amount of the taxpayer's alternative minimum taxable income by more than 40% of the amount that the taxpayer's alternative minimum taxable income would have been had the IDC preference not been repealed. Therefore, a computation of "excess IDC" and any resulting tax preference under prior law is required in many cases. AMTI will need to be computed both with the IDC preference and without the IDC preference to determine if the taxpayer can benefit from the relief of the preference.

Excess IDCs are the excess of the taxpayer's regular tax deduction for such costs over the amount that would have been allowable for the taxable year, if such costs had been capitalized and amortized over a period of 120 months from the month in which production from the well commenced or, if the taxpayer so elected, over the period that could be used to determine cost depletion.

Intangible costs in drilling a non-productive well were not included as IDCs. The Committee Reports state that a well is non-productive if it is plugged and abandoned without having produced oil and gas in commercial quantities for any substantial period of time.

The AMT preference amount was defined as the amount by which "excess IDC" paid or incurred during the taxable year exceeded 65% of the taxpayer's net income from oil, gas, and geothermal properties for the taxable year.

The net income from oil, gas, and geothermal properties for the taxable year was the excess of the aggregate amount of gross income (as determined for percentage depletion) from such properties over the amount of any deductions allocable to such properties reduced by the "excess intangible drilling costs." The deductions attributable to properties with no gross income are not taken into account.

Under § 59(e), a taxpayer may make a "normative election" to deduct IDCs ratably over a 60-month period beginning with the month in which the IDC was paid or incurred. If the taxpayer makes an election under § 59(e), no preference amount results from IDCs subject to the election. The election may be made for any portion of the IDC expenditure. For example, a taxpayer who incurs \$100,000 of intangible drilling costs with respect to a single property may elect normative treatment for any dollar component of the expenditures. No other deduction is allowed for the item to the extent such an election applies. The election may be revoked only with the consent of the Secretary. In the case of a partnership, LLC or an S corporation, an election shall be made separately by any partner, member or shareholder with respect to such individual's allocable share of any expenditures.

IRS EXAMINATION GUIDE

This document is primarily intended for use in Office and Field Income Tax Examinations. Although portions may be applicable, this is not specifically intended for use in examinations of partnerships subject to the §§ 6221 - 6233 Consolidated Audit Procedures. Additionally, this should not be construed to be a substitute for professional judgment or serve as a strategy guide.

The titles of “Revenue Agent” and “Tax Auditor” apply to distinguish IRS personnel, as do the terms “audit” and “examination” to differentiate the scope and objective of what may best be considered a law enforcement procedure. In this document, the term “agent” and “examination” will be used throughout as common terms that may apply to both types of personnel and classes of procedure.

IRS EXAMINATION GUIDE

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
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100) PRE-EXAMINATION ADMINISTRATION

101) Determine from client communication or verbal contact the scope of the IRS representative's work which will be one of the following:

- .1) Compliance Check. The procedures will be limited to inspection of forms filed and inquiry related to information return filing(s). Since this does not include the examination of the taxpayer's books and records, the remainder of this guide will generally be inapplicable. Be aware of the point at which a compliance check becomes an audit or examination. See IRS Publication 3114, "Compliance Checks," for particulars.
- .2) Audit. (Generally, this will encompass review of issues or verification of return items that have been determined before assignment to a tax auditor in an office audit.) Since the scope of an office audit is normally restricted, items generally not inherent to an office audit are subsequently distinguished as field examination items in this Guide.
- .3) Examination.
- .4) National Research Program.
- .5) Limited Issue Focused Examination Program ("LIFE"). The LIFE process is a streamlined examination process available to taxpayers with assets in excess of \$10,000,000.

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

102) If you prepared or were associated with the return being examined:

- .1) Consider whether an independent review by someone not originally associated with the return preparation or review should be performed.
- .2) Locate evidence of having provided a copy of the return to the client. This may be requested by the agent.

_____	_____	_____
_____	_____	_____

103) Locate or obtain copies of the following, if you do not already have them:

- .1) A copy of the return for the year being examined, including amended returns.

_____	_____	_____
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IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) A copy of the workpapers used to prepare the return.	_____	_____	_____
.3) A copy of the returns, including amended returns, for the year preceding and following the year being examined.	_____	_____	_____
104) Review the return for the year being audited, including subsequent amended return(s), workpapers, and source documents provided to prepare the return, and determine if there are any errors.	_____	_____	_____
105) If the taxable year was previously inspected, determine if the examination may be restricted under § 7605(b).	_____	_____	_____
106) Consider reviewing the same information for the year preceding and following the return being audited to determine:			
.1) Whether there are errors related to those return years.	_____	_____	_____
.2) Whether there are carryover-related errors that may affect other returns.	_____	_____	_____
107) Review correspondence in your files to determine whether there have been subsequent discoveries of errors or factual information omissions, changes, or corrections.	_____	_____	_____
108) In the event an error(s) is found, quantify the net potential:			
.1) Tax effect.	_____	_____	_____
.2) Client penalty and interest.	_____	_____	_____
.3) Preparer penalty amount.	_____	_____	_____
109) In conjunction with Item 108, determine whether it is in the firm's and the client's best interest to represent the client in this matter.	_____	_____	_____
110) In conjunction with Item 109, if you will continue representing the client, obtain client agreement as to how errors should be dealt with and a written conflict of interest waiver.	_____	_____	_____
111) Determine whether the return includes Prohibited Shelter Transactions. If so, consider the possibility of a request for tax accrual and other financial audit workpapers.	_____	_____	_____
112) Determine, if possible at this point, if there are any industry or tax issues to be raised for which you do not possess adequate experience or expertise. If so:			
.1) Determine whether needed research can be done in house.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Consider retaining another practitioner with the requisite capability to assist you.	_____	_____	_____
.3) Consider withdrawing from the engagement.	_____	_____	_____
113) Determine whether an original Form 2848, Power of Attorney, for the year being examined and the preceding and following years has been filed both with the IRS Service Center POA Unit where the return was originally filed and the Revenue Agent assigned to the examination. (Note: Although there is no rule limiting the number of representatives a taxpayer may have, the IRS Computer System currently allows registration of up to three individuals.)	_____	_____	_____
114) Retain at least one copy of the Power of Attorney with original signatures.	_____	_____	_____
115) Consider obtaining and holding, until needed, powers of attorney for the same tax periods for the following:			
.1) Payroll and excise tax returns, if any, required to be filed or that have been filed by the taxpayer.	_____	_____	_____
.2) Gift Tax Return, Form 709.	_____	_____	_____
.3) Officer(s)' Form 1040.	_____	_____	_____
.4) If an S corporation, non-active shareholders.	_____	_____	_____
.5) Retirement plan(s)/employee benefit plan(s).	_____	_____	_____
116) For field examinations only, consider obtaining and holding, until needed, powers of attorney for the same tax periods for the following:			
.1) Each taxpayer that would be deemed to be a related party or affiliated group member with respect to the taxpayer being audited.	_____	_____	_____
.2) Each officer and officer-stockholder listed on Form 1120, Schedule E, or Form 1120S if the taxpayer being audited is a corporation.	_____	_____	_____
.3) Each managing partner or member if the taxpayer being audited is a partnership or limited liability company.	_____	_____	_____
.4) Each partnership or corporation in which the taxpayer has more than a 10% interest.	_____	_____	_____
117) Determine whether documents exist that are subject to a confidentiality privilege, and consider appropriate treatment.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
200) PRE-EXAMINATION PLANNING AND ORGANIZATION			
201) Consider confirming, through an engagement letter, the role you will play in the examination, i.e.:			
.1) As the primary taxpayer representative in the examination.	_____	_____	_____
.2) As backup and technical support with primary responsibility for representation belonging to another party, such as the taxpayer, an employee of the taxpayer, or another, such as their attorney.	_____	_____	_____
202) For an office audit, the identification of documentation will be related to predetermined issues and, in some cases, has been specifically identified by the tax auditor. In examinations where that has not been ascertained, determine the location, availability and condition of, and be prepared to provide upon request the following client documents:			
.1) Bank statements for the year being examined and the year preceding and following, including deposit slips, cancelled checks, copies of cashier checks, withdrawal advices, and wire transfers. This should be obtained for all taxpayer accounts, including checking, savings, money market or other investment accounts, and accounts for which the taxpayer has a line of credit.	_____	_____	_____
.2) General ledger, if any, including all ancillary journals, chart of accounts, and year-end adjusting journal entries.	_____	_____	_____
.3) For a field examination, consider providing the following:			
.a) Workpapers (or tax grouping sheets) used to prepare the return that reconcile the line items on the return to the financial statements and trial balance.	_____	_____	_____
.b) A reconciliation of book and tax income.	_____	_____	_____
.c) A reconciliation of Schedule M-1 income per books to financial statement income, if different.	_____	_____	_____
.d) Adjusting entries prepared by independent accountants.	_____	_____	_____
.e) Schedule of year-end accruals.	_____	_____	_____
.f) Schedule of other current assets and other current liabilities.	_____	_____	_____
.g) Depreciation schedule with details of book to tax reconciliation.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.h) Calculation of ending inventory, including §263A calculations.	_____	_____	_____
.i) Record retention agreement for computerized records with the IRS.	_____	_____	_____
.j) A description of the system of internal controls.	_____	_____	_____
.4) Documentation related to the following income or deduction items:			
.a) Taxes and licenses.	_____	_____	_____
.b) Legal and professional.	_____	_____	_____
.c) Charitable contributions.	_____	_____	_____
.d) Mortgage and other interest deductions.	_____	_____	_____
.e) Business travel.	_____	_____	_____
.f) Meals and entertainment.	_____	_____	_____
.g) Repairs and maintenance.	_____	_____	_____
.h) IRA or employee benefit plan contributions.	_____	_____	_____
.i) Barter transactions.	_____	_____	_____
.j) Foreign sourced income.	_____	_____	_____
.k) For an individual taxpayer, provide support for exemptions claimed.	_____	_____	_____
.l) Sales contracts, receipts or other documentation for the purchase or sale of business or personal property during the year.	_____	_____	_____
.m) Purchases of materials and supplies included in cost of sales.	_____	_____	_____
.n) Purchase invoices, receipts, and shipping documents related to the regular purchase and sale of merchandise or services in the normal course of business.	_____	_____	_____
.o) All types of sales and promotional discounts.	_____	_____	_____
.p) Copies of sales tax returns filed by the taxpayer for the year being audited.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.q) Copies of excise tax returns filed by the taxpayer for the year being audited.	_____	_____	_____
.r) Insurance policies in effect during the year, which may include health, life, accident, general liability, workers compensation, and auto and property coverage.	_____	_____	_____
.s) All lease agreements in force during the period under examination, including real and personal property.	_____	_____	_____
.t) Payroll journal and copies of federal and state payroll tax returns, including Form 940 and state and local equivalent unemployment tax returns, for all quarters of the year being audited and the quarter preceding and following the year being audited, if applicable, and documentation of associated tax payments.	_____	_____	_____
.u) Copies of loan documents for loans outstanding during the year.	_____	_____	_____
.v) For a corporation or limited liability company, documentation related to each officer, shareholder, or member for the following:			
(i) Accounts receivable.	_____	_____	_____
(ii) Loans.	_____	_____	_____
(iii) Compensation accrued and paid.	_____	_____	_____
.w) Logs or other documentation to support business use of listed property.	_____	_____	_____
.x) Determination of bad debts, including proof of collection process (e.g. collection demands by attorney or collection agency).	_____	_____	_____
.5) Copies of state and local tax returns for the year being audited and documentation of associated tax payments.	_____	_____	_____
.6) Copies of Forms 1096 and 1099 filed for the year being audited.			
.a) Determine whether these agree to related records.	_____	_____	_____
.b) Determine whether independent contractor agreements exist and, if so, consider obtaining copies.	_____	_____	_____
.c) Proof that payments were timely made.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.7) Copies of Forms W-3 and W-2 filed for the year being audited.	_____	_____	_____
.a) Determine whether these agree to related records.	_____	_____	_____
.8) If qualified employee benefit plans exist, obtain:			
.a) Copies of series 5500 forms filed for the year being audited.	_____	_____	_____
.b) The determination letter for each qualified plan.	_____	_____	_____
.c) Proof that payments were timely made.	_____	_____	_____
.9) Forms 8300 provided or received for cash transactions of \$10,000 or more.	_____	_____	_____
.10) Copies of financial statements, including client-prepared forms submitted to bank or other creditor.	_____	_____	_____
.11) If applicable, copies of loan amortization schedules or other information that details and supports the amounts claimed as interest.	_____	_____	_____
.12) Copies of minutes for a corporation or limited liability company (if required by law or the limited liability company's regulations).	_____	_____	_____
.13) With respect to a field examination of a business entity, consider preparation of background information for the agent that provides:			
.a) Current ownership.	_____	_____	_____
.b) Changes in ownership within the last five years.	_____	_____	_____
.c) Reorganizations and acquisitions within the last five years.	_____	_____	_____
.d) Organizational chart.	_____	_____	_____
.e) Results of prior examinations (including copies of prior audit reports).	_____	_____	_____
.f) For S corporation - schedules of shareholder basis and AAA.	_____	_____	_____
.14) Consider the application of taxpayer protections related to trade secrets, computer software and source code.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
203) If the records listed under Item 202 had not previously been reviewed in connection with preparing the tax return, consider scanning or reviewing to determine that there are no inconsistencies in the return.	_____	_____	_____
.1) If microfilm records are provided, see Rev. Proc. 81-46, 1981-2 C.B. 621, for form and content.	_____	_____	_____
.2) If computer records are provided, and the taxpayer has assets of \$10,000,000 or more, see Rev. Proc. 98-25, 1998-1 C.B. 689, for form and content.	_____	_____	_____
.3) Determine a firm deadline for when the records can be produced.	_____	_____	_____
204) Should the client be unable to recreate or obtain copies of the missing documents:			
.1) Consider providing approximations through secondary sources and/or collateral evidence under IRM 4.10.7.3.12.	_____	_____	_____
.2) Consider offering oral statements and affidavits under IRM 4.10.7.3.2.	_____	_____	_____
.3) Determine a firm deadline for when the substitute can be produced.	_____	_____	_____
205) Determine if the client has been notified of summons being served on any third party. If so:			
.1) Determine if legal counsel has been retained.	_____	_____	_____
.2) If legal counsel has not been retained, inform the client of its entitlement to a motion to quash and discuss retention of counsel.	_____	_____	_____
206) Determine if IRM 4.10.20.3.1 "unusual circumstances" exist and will require production of audit or other workpapers.	_____	_____	_____
207) Determine if the client is being examined by the IRS Large and Midsize Business Division (LMSB). (Businesses with assets greater than \$10,000,000). If so:			
.1) Review the "Joint Audit Planning Process Planning & Monitoring Tool;" and	_____	_____	_____
.2) Consider responses to be provided during initial meeting with examining agent.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
208) If you had not previously spoken with the examining agent, contact him or her to determine:			
.1) If this is a specialized audit under the following:			
.a) For individuals - "financial status" type audits.	_____	_____	_____
.b) For all taxpayers -			
(i) International Enforcement Program	_____	_____	_____
(ii) Industry Specialization Program	_____	_____	_____
(iii) Non-filer Program	_____	_____	_____
(iv) Return Preparer Program	_____	_____	_____
(v) Classification Settlement Program	_____	_____	_____
.c) For corporate taxpayers only -			
(i) Coordinated Examination Program	_____	_____	_____
(ii) LIFE	_____	_____	_____
.2) If determined to be a specialized audit, consider reviewing relevant portions of the Internal Revenue Manual and, if applicable, Market Segment Specialization Program (MSSP) and Industry Specialization Program (ISP) papers and handbooks, which are listed at XV-1.	_____	_____	_____
.3) If determined to be a "financial status" audit, discuss with client the retention of legal counsel and ongoing representation.	_____	_____	_____
.4) The reason this return was selected for examination.	_____	_____	_____
.5) Issues or particular concerns the agent is aware of at this time. (If unreported income or any other potential for civil fraud or criminal investigation is raised, discuss with client the retention of legal counsel and ongoing representation.)	_____	_____	_____
a.) Consider whether to make pre-assessment payments to stop interest.	_____	_____	_____
b.) Consider requesting early referral to Appeals.	_____	_____	_____
.6) An appropriate start and completion date for the examination.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.7) That information or documents they wish to inspect at the initial meeting is specified through Form 4564, Information Document Request (IDR), or other written form.	_____	_____	_____
8.) Names and contact information of all personnel involved in the audit, e.g. engineers, economists, international examiners, or ISP industry specialists.	_____	_____	_____
209) Determine what will be the best location to conduct the audit. If:			
.1) An office audit – this should either be the IRS office closest to the taxpayer or its representative.	_____	_____	_____
.2) A field examination – the determination should be based on location of the underlying records and documentation and whether the potential for disruption to the client’s business warrants operating out of your office. Generally, this should be done at the CPA’s office.	_____	_____	_____
210) Determine if the same issues were examined in either of the two years preceding the audit year, with no changes or small tax changes reported. If so, discuss with the agent the potential for suspending the audit on the basis of “repetitive examination” policies contained under IRM 4.10.2.4.2, or “confining” the scope of the examination to new or different issues from those that have previously been audited. Note: The repetitive examination exception does not apply to a business return or an individual return with a Schedule C or F, scanning of returns in an office audit without questions being asked by the tax auditor, or a compliance check.	_____	_____	_____
211) Consider applying for repetitive examination treatment where the auditor has surveyed or examined a return of the same taxpayer for any of the three preceding tax periods, unless there was an intervening survey or examination by another auditor.	_____	_____	_____
212) Determine if any informal agreements were made during a previous audit, and consider whether to confirm in writing.	_____	_____	_____
213) If you have missing or unusable records, consider disclosing that information and an alternative timetable, if necessary, in accordance with what you determined under Item 203 or 204.	_____	_____	_____
300) DURING THE AUDIT			
301) For field examinations, establish the following with the agent at the initial meeting:			
.1) If you do not personally know the agent, ask for identification to verify that he/she is not a “special agent”.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) A place where he/she may work.	_____	_____	_____
.3) Set hours in which he/she will have access to the office and any other relevant items, such as parking and transportation and areas that are off-limits, etc.	_____	_____	_____
.4) Identify the primary contact person that the agent will deal with. If possible, a secondary contact with client familiarity should be designated.	_____	_____	_____
.5) Reconfirm the timetable for the audit.	_____	_____	_____
.6) Agree to information and document requests being made in writing on Form 4564, Information Document Request, with mutually agreeable deadlines for production of information that will conform with the prior timetable.	_____	_____	_____
.7) Consider requesting a copy of written IRS audit plan. (Note: A written plan is required in Coordinated Examination Program cases.)	_____	_____	_____
302) Consider requesting that the agent save information requests and questions until they have completed the review of information you provided (unless the issue or information is so significant that it impedes further work by the agent).	_____	_____	_____
303) Maintain a chronological log or other record of all records, files, and workpapers provided to the agent. Consider having agent provide written indication for receipt of documents.	_____	_____	_____
304) Obtain a copy of items the agent photocopies. In the case of a field examination, consider designating a copy person through whom the agent may make his/her copy requests. (You should continue to review and approve these copies prior to their release.)	_____	_____	_____
305) Consider discussing the manner in which the agent would prefer the records and information be organized. (At a minimum, all records agreed to be provided should be assembled in good order and available at the agreed upon time.)	_____	_____	_____
306) If the agent has requested a personal interview, determine the reason that the agent feels this is justified. (Under the Taxpayer Bill of Rights, taxpayers are not required to appear for an interview unless a summons has been issued.)	_____	_____	_____
.1) Consider whether you can provide (or obtain) any information required without the need for the agent's personal interview with the taxpayer, and so inform the agent.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Consider if justification for the interview warrants retention of legal counsel.	_____	_____	_____
.3) If an interview is to be held, request that it be conducted prior to the start of the audit.	_____	_____	_____
.4) Review with the client questions to expect and appropriate responses.	_____	_____	_____
.5) Consider recording the interview. Notice under § 7521(a)(1) should be given the IRS agent.	_____	_____	_____
307) In the event the agent contemplates making a third-party contact, consider contacting the agent to arrange for the client to produce requested information.	_____	_____	_____
308) If the agent has made third party contact, consider requesting a copy of Form 12175 reflecting name or third party contacted and date of contact.	_____	_____	_____
309) Based on previous agreement with the client, consider disclosing to the agent significant and/or obvious errors present in the return.	_____	_____	_____
310) Consider a case transfer:			
.1) Based upon the agent having a conflict of interest with the taxpayer. (See IRM 4.10.2.2.3.)	_____	_____	_____
.2) Due to location of taxpayer's current residence.	_____	_____	_____
.3) Due to the location of the taxpayer's current principal place of business.	_____	_____	_____
.4) Due to the location of the taxpayer's books, records and source documents.	_____	_____	_____
.5) Due to the location where the IRS can perform the examination most efficiently.	_____	_____	_____
.6) Due to other factors which indicate that conducting an examination at a particular location could pose an undue inconvenience to the taxpayer and his business.	_____	_____	_____
311) If a summons is issued during the examination, consider retaining legal counsel on behalf of yourself and recommending that the client retain legal counsel.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
312) In order that there be a mutual understanding, request that proposed adjustments be provided in writing and that the agent explain them to you by:			
.1) Showing the relevant factual information.	_____	_____	_____
.2) Providing the mechanical calculations.	_____	_____	_____
.3) Citing or stating the technical authority or basis for the position.	_____	_____	_____
313) Quantify the tax, penalty, and interest associated with:			
.1) Issues on which the agent is correct and to which you agree.	_____	_____	_____
.2) "Non-interpretive" issues that benefit the taxpayer.	_____	_____	_____
.3) "Interpretive" issues on which the IRS and taxpayer may disagree.	_____	_____	_____
314) If there has been a protracted amount of time between contacts by the agent:			
.1) Determine whether the case has been suspended under IRM 35.8.10.8 by the National Office pursuant to pending litigation on a relevant issue.	_____	_____	_____
.2) Determine if the agent might have referred the case for possible criminal investigation.	_____	_____	_____
.3) Determine if the agent has requested a Field Service Advice (FSA). Normally, the taxpayer is not notified until after the FSA has been rendered.	_____	_____	_____
315) If the case has been suspended, consider whether you should concede the issue and file a claim for refund.	_____	_____	_____
316) Evaluate the potential for settling the controversial or interpretive issues and costs to pursue.	_____	_____	_____
317) If an LMSB examination, consider applying for the "Fast Track Settlement Procedure" under Rev. Proc. 2003-40.	_____	_____	_____
318) Consider the effect that tolling statutes of limitation may have with respect to the audit.	_____	_____	_____
319) If the agent requests that a series 872 Form, Consent to Extend the Time to Assess Tax, be given, evaluate the consequences of not consenting.	_____	_____	_____

IRS EXAMINATION GUIDE

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
320) Evaluate the effect of taxpayer concessions on subsequent tax years.	_____	_____	_____
321) Discuss the proposed adjustments and examination results with the client and obtain agreement and approval for settlement of issues and amount.	_____	_____	_____
322) Request a follow-up meeting with the agent to provide a response to the proposed adjustments.	_____	_____	_____
323) Consider if it is in the client's best interest to provide the agent with a written response to support your position(s).	_____	_____	_____
324) If discussions with the agent are not productive with respect to reasonable positions, consider requesting a meeting with the agent and his/her group manager to resolve the issues at the examination level.	_____	_____	_____
325) Request that a draft of the Revenue Agent's Report (RAR) be provided to confirm that the issues are consistent with prior discussions and agreement.	_____	_____	_____
326) If discrepancies exist with the RAR, bring them to the attention of the agent prior to his/her submission for review, preferably, in writing.	_____	_____	_____
400) WRAP UP AND CONCLUSION			
401) Review the "issued" Revenue Agent's Report for accuracy and consistency.	_____	_____	_____
402) Consider whether Form 870, Waiver of Restrictions on the Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment, should be executed:			
.1) For all adjustments, or	_____	_____	_____
.2) For some of the adjustments.	_____	_____	_____
403) Consider preparing a memorandum outlining issues, associated outcome, recommendations to be made to the client, and summation of the results of the audit.	_____	_____	_____
404) Review the RAR and recommended actions related to Form 870 with the client.	_____	_____	_____
405) If changes are proposed with which the taxpayer disagrees, consider communicating alternative courses of action, associated costs, and probability of success to the client.	_____	_____	_____

IRS EXAMINATION GUIDE

DONE N/A COMMENTS OR
EXPLANATION

COMMENTS OR EXPLANATIONS

2004 GUIDES BY STATE AND LOCAL TAXATION TECHNICAL RESOURCE PANEL

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STATE AND LOCAL TAX PRACTICE GUIDES

Introduction

This guide should provide tax practitioners with information they should be aware of and consider when preparing individual and corporation state tax returns. The laws and policies of each state should be verified for application to specific cases. This guide is not authoritative and not all-inclusive and should not be relied upon for a specific taxpayer. Practitioners need to research issues identified in this checklist.

Acknowledgements

The State and Local Tax Practice Guides and Checklists were developed by the following members of the State Taxation Checklist Task Force of the Tax Division of the American Institute of Certified Public Accountants:

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We hope this publication is informative. If you have any comments or additional items or suggestions for next year's state tax return preparation guide/checklist, please fax your comments to Carol Ferguson at 202-434-9243, or send an e-mail message to cferguson@aicpa.org.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

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UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

ALABAMA

1. AL allows a federal income tax deduction for regular tax after subtracting all deductible and/or refundable credits; federal AMT is considered a prepayment of federal income tax and is not deductible.
2. For corporate apportionment purposes, the sales factor includes the gross proceeds from the sale of fixed assets, rather than the gain/loss on the sale of fixed assets, if the sale produces business income and was in the regular course of business.
3. AL follows federal treatment in regard to capital gains and losses. Before that date AL did not impose a limit on the amount of capital loss claimed during any particular year. However, AL allowed current year's capital gains to be offset only by current year's capital losses; there was no state provision allowing unused capital losses to be used in other years, as carrybacks or carryovers.
4. AL requires all corporations, LLCs and limited partnerships to file the AL business privilege tax return. The return is due on the same date as the income tax return, or if a return is not filed, 4/15. A family limited partnership's tax is limited to \$500 if a statement is filed with the return.
5. AL does not allow NOL carryback, but losses may be carried forward for up to 15 years.
6. For corporations not commercially domiciled in AL, the amount of non-business interest expense that is deductible, must be reduced by the ratio of assets producing non-business income to total assets.
7. AL requires company by company apportionment factors and limits any income or loss for a member of the consolidated group to the part of income or loss apportioned and allocated to AL. Each member of the AL affiliated group shall be considered a separate taxpayer for purposes of allocation and apportionment.
8. There are special rules involving the valuing of inventory for companies that are changing from a C to an S corporation.
9. A unitary or affiliated group must file an election with AL to file on a consolidated basis upon payment of a graduated fee. One or more of the group members must have nexus in AL.
10. Every subchapter K entity with non-resident owners must file a composite return and make a composite payment on behalf of the non-resident owners when the annual return is due to be filed, without regard to extensions.
11. AL will follow the federal rules for computing the additional depreciation deduction provided under the JCWAA of 2002 and JGTRRA of 2003. AL will allow the additional 30% depreciation deduction (2002 Act) and the additional 50% depreciation deduction (2003 Act) on certain types of assets as outlined in the economic stimulus bill.
12. AL adopted the increased § 179 deduction threshold under the JGTRRA of 2003. The deduction is increased to \$100,000 and the phase out starts at a total investment of \$400,000.
13. Tax incentives are available for "favored geographic areas," defined by law as: (1) state enterprise zones, which currently include parts of 24 counties and parts of 3 cities; or (2) less developed counties, which are designated each year on 01/01.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

ALASKA

1. Multistate corporations must apportion income by the standard apportionment formula (a modified formula is used for corporations engaged in oil and gas activities). Multistate corporations that are members of an affiliated group must file using a "water's edge" combined reporting method, which is based on domestic operations. Oil and gas corporations must file using the worldwide combined reporting method.
2. Corporations with oil and gas activities are required to file an oil and gas return rather than the standard income tax return.
3. S Corporations doing business in AK are required to file a return with a copy of their federal Form 1120S attached (also attach Form 7004 if applicable).
4. The starting point for computing AK taxable income for a member of a federal consolidated group is federal taxable income on the consolidated return. Adjustments are then made to arrive at taxable income of the unitary group.
5. For "water's edge" filers, AK conforms to the bonus depreciation and NOL provisions of the federal JCWAA of 2002 and the changes made under the federal JGTRRA of 2003. Corporate oil and gas producers and pipelines have separate depreciation calculations.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

ARIZONA

1. The full combination method of filing should not be confused with filing a consolidated return. If filing a consolidated return, proper election should be made and signed consent forms should be attached for each individual subsidiary corporation that is being included in the consolidation.
2. If reducing taxable income by income not subject to AZ tax, expenses related to this nontaxable income should be added back.
3. State income tax deduction is eliminated for taxable years starting 1/1/1998. For 1/1/1998 and forward all state income tax is no longer deductible and is a required add back in computing AZ taxable income. All refunds, including AZ refunds, are to be subtracted from federal taxable income if included in AZ gross income. AZ income tax refunds are to be added back if not already included in AZ gross income if deduction was previously taken.
4. If allocating income (as opposed to apportioning) to other states, the related property, payroll and sales should be excluded from the apportionment factor.
5. AZ requires all unitary businesses to file a combined return, unless a consolidated return election has been made. Nonunitary businesses must file separate returns. While the combined return consists of all members of the unitary business, a consolidated return consists of all members of the federal consolidated group. Note that the consolidated return election is binding for all subsequent tax years unless the department consents to a change of filing method.
6. AZ has repealed a provision that allowed a deduction from gross income for dividends received from AZ corporations. Dividends received from 50% or more controlled domestic corporations remain deductible.
7. Taxpayers are required to add back the bonus depreciation deduction provided for in the federal JCWAA of 2002 and the changes made under the federal JGTRRA of 2003. Taxpayers are allowed a subtraction for depreciation allowable under the IRC computed as if the taxpayer had not elected bonus depreciation. AZ does not conform to the NOL provisions of the Act. Further, Arizona requires an addition of § 179 expense in excess of \$25,000 for corporations. The amount added back can be subtracted ratably over a five year period.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

ARKANSAS

1. Corporations filing a consolidated return and which elect filing status “4” must complete a separate form AR1100CT and Schedule A, if applicable, for each member with gross income from sources within AR. They must also consolidate the applicable taxable income on a Consolidated Group AR1100CT and attach a copy of the federal return. Each member’s AR Business and Incentive Tax Credit may be combined to reduce the consolidated group’s total tax liability without separate entity restrictions except for the AR Economic Development Credit.
2. Determine whether the corporation qualifies for any of AR’s 22 tax credits.
3. Dividends are excluded from AR taxable income if at least 80% of the subsidiary’s capital stock is owned by a corporation doing business within AR.
4. If multi-state S corporation has an AR resident shareholder, such shareholder is allowed a pro-rata credit for taxes paid in any state in which an S corporation election is not recognized.
5. Business income is apportioned to AR by utilizing a three-factor formula with the sales factor double weighted and a denominator of four. If the denominator is missing one or more of the three factors, the denominator of four must be reduced by the number of missing factors. Financial institutions must single weight the sales factor. Other industries may be required to use a modified apportionment formula.
6. A NOL may be carried forward for five years or until exhausted, whichever event occurs first. NOL carrybacks are not allowed.
7. Capital losses are deducted in full in the year the loss occurred. Consequently, any capital loss carryover or carryback allowed in arriving at federal net income must be added back.
8. Effective for tax years beginning on or after 1/1/2001 AR has adopted § 195 regarding capitalization and amortization of start-up expenses.
9. AR taxpayers will not be allowed to use the additional depreciation deduction provided under JCWAA of 2002 and JGTRRA of 2003. Taxpayers will continue to file returns using depreciation and expensing provisions found in §§ 167, 168, 179 and 179A.
10. AR does not allow the special federal treatment of DISCs. These companies are treated in the same manner as corporations.
11. Only taxpayers in the affiliated group that have gross income from AR sources are allowed to be included in the filing of a consolidated return.
12. AR does not conform to the higher expensing limit for § 179 enacted by the JGTRRA of 2003. The § 179 deduction is limited to \$25,000 for AR tax computation purposes.
13. For tax years beginning in calendar years 2003 and 2004, AR has levied a 3% income tax surcharge, which applies to every person required to file an AR income tax return.
14. Effective for tax years beginning on or after 1/1/2003, AR follows federal “check the box” rules regarding the income taxation of LLC’s and partnerships to be classified and taxed in the same manner for AR income tax purposes as for federal income tax returns.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

CALIFORNIA

1. Members of a combined unitary group must compute credits and apply the credit carryovers on a separate company basis.
2. Gain or loss on inter-company sales of business fixed assets or capitalized inter-company charges and expenditures between members of a combined group will not be recognized as long as both the seller and the purchaser remain in the combined group and the asset is not sold to outsiders.
3. Intercompany sales and other intercompany revenue items are eliminated in computing the numerator and denominator of the sales factor. Intercompany rent charges are also eliminated from the property factor computation.
4. The immunity provided by P.L. 86-272 is expressly limited to interstate commerce and will not be applied to foreign commerce. Rather, a nexus analysis for foreign commerce must be performed under the Due Process Clause and Commerce Clause of the US Constitution.
5. CA does not conform to the provisions of § 957. A state adjustment is necessary to eliminate the Subpart F deemed dividend income and to include the actual dividend distributions in income when paid..
6. Corporate taxpayers must allocate interest expense between business and nonbusiness income on a group basis using a proportional method based on gross assets or gross income to the extent evidence supporting direct tracing is unavailable. Historically, taxpayers were required to allocate interest expense using the interest offset rule.
7. Corporations that are subject to the CA franchise tax must include in gross income all interest received from federal obligations. In addition, interest income from state, municipal, or other bonds must also be included in gross income for franchise tax purposes..
8. The State Board of Equalization has held that the MI SBT is deductible by all corporations.
9. A combined report is mandatory if two corporations are unitary and the unitary group does business within and without CA. Members of a unitary group may elect to file a group single return by filing Schedule R-7. Prior to 1/1/2003, to file on a "water's edge" basis each unitary group had to enter into a contract with FTB by filing Form 100-WE. For taxable years beginning on or after 1/1/2003, the manner of making a water's-edge election has been substantially changed. CA Rev. & Tax. Code § 25113 (added by Stats. 2003, ch 663, § 10) replaces the contract with a statutory election that continues in effect for a minimum of 84 months (7 years). See FTB Notice 2004-2 (5/3/2004) for additional details on the following topics:
 - Making a Water's Edge Election
 - Effect of different Fiscal Years
 - Form FTB 1116, Notice of Nonrenewal of Water's-Edge Contract
 - Termination of Election without the FTB's Consent
 - Termination of Election with the FTB's Consent
 - Re-electing Water's Edge Without the FTB's Consent
 - Re-electing Water's-edge with the FTB's Consent
10. The general carryforward percentage for NOLs is 55% for tax years beginning after 1999, 60% for tax years beginning after 2001 and before 2004 and 100% for tax years beginning after 2003. The general NOL carryforward period is 10 years for tax years beginning after 1999. CA legislation suspends NOL deductions for taxable years beginning in 2002 and 2003; however, the legislation extends the carryforward period for which the deduction is not allowed by one year for losses incurred in 2002 and 2003, and by two years for losses incurred before 2002.
11. CA taxpayers may not claim the additional depreciation deduction provided under the JCWAA of 2002 or the JGTRRA of 2003. CA does not conform to the extended NOL carryback provisions of the acts.
12. The CA statute of limitations on assessments begins to run the date a notice of proposed deficiency assessment is mailed. In contrast, the federal statute of limitations begins to run the date of the actual assessment.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

13. CA law specifically disallows any application of the IRC FSC and DISC provisions. For CA purposes, FSCs and DISCs are treated in the same manner as other corporations. In addition, the CA statute does not incorporate the federal ETI provisions.
14. CA rules permit partial combined reporting periods. The rules, adopted on 7/13/1999, apply to all years open under the statute of limitations.
15. CA Regs. § 25106.5-1 clarifies the treatment of inter-company transactions for members of a combined reporting group. The regulation is effective for intercompany transactions occurring on or after 1/1/2001.
16. For taxable years beginning on or after 1/1/2002, CA law conforms to federal law with respect to trade receivables arising from the sale of non-financial goods and services held by the taxpayer or related person at all times since issue date. Based on the statute, such receivables are not eligible for mark-to-market treatment.
17. For taxable years beginning on or after 1/1/2002, the deduction for contributions of appreciated property is not treated as a tax preference item for purposes of alternative minimum taxable income.
18. An FTB memorandum issued 5/17/2004, outlines departmental procedures dealing with the application of *Farmer Brothers v. Cal. Franchise Tax Board*, 108 Cal. App. 4th 976 (Cal. Ct. App. 2003), in which the CA Court of Appeals found unconstitutional § 24402(a). That section tied the dividend received deduction to the dividend payor's level of CA business activity. The memorandum raises a number of questions that have yet to be addressed as of the date this summary was put together. Accordingly, readers are advised to seek additional FTB guidance regarding the DRD provisions applicable to returns filed for any open year.

A comparable DRD provision applicable to insurance company dividends provided for under § 24410 was also ruled unconstitutional in *Ceridian v. Cal. Franchise Tax Board*, 85 Cal.App. 4th 875 (as modified by 86 Cal.App.4th 383) (Cal. Ct. App. 2001). That section provided tied the DRD for dividends from a entity subject to the gross premiums tax to the payor's level of CA business activity. Pending legislation at the date of this summary would substantially modify the DRD provisions applicable to insurance company dividends. Readers are advised to seek additional FTB guidance regarding this matter.

19. CA enacted tax shelter legislation in October 2003. The legislation mirrors federal tax shelter provisions, but adds various state-specific tax shelter provisions. Readers are advised to seek additional FTB guidance regarding this matter.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

COLORADO

1. Apportionment options: CO provides either the MTC three-factor or a statutory two-factor apportionment method (which eliminates payroll). The election is made on an annual basis.
2. Business vs. Non-business: Under the two-factor statutory apportionment method, all income is considered business income. However, under the MTC three-factor approach, traditional concepts of business vs. nonbusiness are applicable.
3. NOLs carried forward can only be offset by income apportioned in the same apportionment method as utilized when the NOL was created (i.e., two-factor NOLs can be used against two-factor income, etc.)
4. There is no throwback for sales factor purposes under the statutory two-factor apportionment method. However, under the MTC three-factor method, throwback does apply.
5. Definition of members who can be included in a combined return: Required three of six statutory unitary tests for the current tax year and the two prior tax years (these years do not need to be 12-month years). By virtue of this definition, newly formed or acquired entities cannot be unitary until the third year after their formation or acquisition. Corporations meeting a defined 80:20 test (relating to property and payroll sourced outside the U.S.) cannot be included in a unitary/combined return.
6. Taxpayers can elect a nexus consolidation reporting method. A nexus consolidation election, once made, is in effect until the taxpayer elects to revoke the election. However, no revocation can be made for 4 years (current year and three subsequent years). This reporting method includes the federal affiliates that have CO nexus.
7. Taxpayers can elect to file a "hybrid" consolidated/combined return. If such an election is made, a single combined return is filed that includes both unitary entities and non-unitary entities with CO nexus. The nexus affiliated group is deemed to be a single member of the unitary combined return. This election effectively allows the inclusion of a newly formed or acquired entity in a combined report, so long as it has nexus in CO.
8. Capital gain exclusion is allowed for CO property acquired after 5/9/1994 and held for at least 5 years. CO property includes stock in a CO corporation, limited liability company, or partnership (>50% of property and payroll in CO) or real or personal property located in CO. The post 5/9/1994 acquisition requirement is waived for tax years beginning on or after 1/1/1999 if the state surplus exceeds certain thresholds. A one-year holding period is required for tax years beginning on or after 1/1/2001 if the state surplus exceeds certain thresholds. There was no surplus for the year beginning 1/1/2003, so only the general modifications for assets held 5+ years and acquired on or after 5/9/1994 will be in effect.
9. Unitary/combined filing is required for those corporations that meet the applicable tests.
10. CO conforms to the bonus depreciation provisions of the federal JCWAA of 2002. CO does not conform to the NOL provisions of the Act.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

CONNECTICUT

1. CT's taxable capital base includes the deferred tax liability and other "surplus reserves". It is reduced by stock holdings, including treasury stock.
2. CT's property apportionment fraction is measured by average monthly net book value of total tangible property held.
3. The first corporate estimate is due the 15th day of the third month of the tax year.
4. Prior year overpayments may not be applied to estimates until the date that the prior year return is filed.
5. Safe harbor amount for corporate estimates based on the percentage of prior years tax for years beginning in 2003 is 30% (1st Qtr.), 84% (2nd Qtr.), 80% (3rd Qtr.) and 100% (4th Qtr.). The second quarter amount is adjusted to reflect the 20% surcharge imposed for 2003. The safe harbor amounts must be based on tax shown on the prior year return without regard to any tax credits.
6. The estimated tax payments may be based on a percentage of current year's tax liability (27%, 63%, 72%, 90% by quarter) or may be determined by annualizing net income.
7. S corporations--corporate income tax is repealed, effective for tax years beginning in 2001 and later. For tax years beginning in 2002 and later, S corporations are subject to the Business Entity Tax.
8. Dividends received deduction must be reduced by "related expenses". In general, "related expenses" have included interest and administrative expenses.
9. The first \$25,000 of combined return tax savings is added to tax.
10. Numerous tax credits are available. For tax years beginning in 2002 and later, credits cannot offset more than 70% of the tax liability.
11. Most corporations apportion using a traditional four-factor formula. However, manufacturers and broadcasters must apportion using a single (gross receipts) factor method (manufacturers for tax years beginning on or after 1/1/2001; broadcasters 10/1/2001). Financial service companies and other specialized industries also have specific apportionment requirements. Certain companies that derive income that is not primarily from manufacture, sales or use of tangible personal property also apportion using a single factor (although few companies qualify for this method).
12. The Commissioner has very broad "§ 482-type" powers.
13. S Corporations now file only Form CT-1120SI and Form OP-424 (Business Entity Tax).
14. CT does not conform to the bonus depreciation provisions of the federal JCWAA of 2002. CT does not conform to the NOL provisions of the Act.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

DELAWARE

1. If the corporation is incorporated in DE but does not conduct business in DE, it is not required to file a DE income tax return. However, an annual franchise tax must be paid by all DE corporations.
2. DE Intangible Holding Company (DIHC) qualifications are outlined in Title 30, §1902(b).
3. The property factor in the apportionment formula includes the average value, at the beginning and ending of the tax year, of the rented real and tangible personal property.
4. The payroll factor in the apportionment formula excludes general executive officers compensation.
5. The receipts factor in the apportionment formula excludes allocable receipts.
6. Allocable income includes rent income, royalty income, gains/losses from real and depreciable property, and expenses directly associated with the income.
7. DE does not allow a deduction for interest paid to affiliated companies if the creditor corporation did not include the interest income on its DE return.
8. DE S corporations are required to withhold and remit income taxes on behalf of all nonresident shareholders at the highest DE individual income tax rate.
9. DE S corporations are required to complete Sch. A-1 for every resident and nonresident shareholder. Federal Sch. K-1 is not acceptable.
10. C corporations claiming a NOL must carry back/forward the amount recognized for federal purposes. DE does not allow loss carryback in excess of \$30,000 to each carryback year. Federal loss carrybacks in excess of \$30,000 for any carryback year must be carried forward for DE purposes.
11. The amount of NOL carryforward used in one year can only equal the amount of federal taxable income in the carryforward year. A carryforward loss cannot be used to offset any DE addition modification for income allocation for the purpose of reducing DE taxable income to zero.
12. DE conforms to the federal bonus depreciation and NOL provisions of the federal JCWAA of 2002 and JGTRRA of 2003.
13. If there is a merger of two or more related corporations, the NOL is limited to the amount of NOL not absorbed through consolidation prior to the merger.
14. Effective 1/1/2003 the franchise tax minimum has increased from \$30 to \$35 and the maximum amount has increased from \$150,000 to \$165,000. Various fees relative to companies incorporated or doing business in DE also have increased effective 8/1/2003.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

DISTRICT OF COLUMBIA

1. S corporations are treated the same as C corporations for DC franchise tax purposes.
2. Effective for corporate NOLs incurred after 12/31/1999, no carryback will be allowed and NOLs must be computed based on DC losses, rather than the prior consolidated method of calculation.
3. Effective for the 2001 year, corporations filing federal consolidated returns can elect to file a DC consolidated return including all members that have income derived from DC sources.
4. All returns reporting a substantial overpayment/refund request should include a completed Form FR-119 attached to the return. D.C. Form FR-119 must be attached and filed in order to receive interest on a refund claim (including an overpayment on an original return).
5. DC does not conform to the federal bonus depreciation provisions of the federal JCWAA of 2002. DC does not conform to the NOL provisions of the Act. Additionally, DC does not conform to the bonus depreciation provisions in the JGTRRA of 2003.
6. All previous rulings by the Office of Tax Revenue (OTR) that are not specifically reauthorized by the OTR are considered withdrawn as of 12/31/2002, if not submitted for review and reauthorization prior to that time. Withdrawn rulings may not be relied on for any tax return filed after 12/31/2002. These rulings include income tax. Franchise tax. Personal property tax, sales and use tax, gross receipts tax and employee withholding tax rulings.
7. For apportionment purposes, corporations must treat income from sales of tangible personal property to the United States Government as income from a DC source unless: 1) the corporation's principal place of business is outside DC; 2) the property is delivered from outside DC; and 3) the property is for use outside DC.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

FLORIDA

1. Emergency Excise Tax Errors: Computing the tax on non-ACRS property, and failing to claim a credit for tax paid in prior years.
2. Corporations operating in FL must file a corporate annual report and pay a filing fee by 5/1.
3. FL does not allow NOLs to be carried back and there is only one NOL for FL purposes (i.e., do not calculate a separate NOL for regular and AMT purposes).
4. Initial year information returns are no longer required for S corporations, tax-exempt organizations, and some others. S corporations and tax-exempt organizations that have federal income subject to tax are required to file a return and pay FL income tax.
5. An affiliated group that files a federal consolidated return may elect to file a FL consolidated return if 1) each member consents, 2) it filed a federal consolidated return, 3) FL consolidated group is the same as the federal group.
6. FL conforms to the bonus depreciation adjustment outlined in the JCWAA of 2002 and JGTRRA of 2003. Applicable retroactively to 1/1/2004, FL corporate income tax statutes adopt the bonus depreciation provisions of the JGTRRA of 2003. Taxpayers that filed their 2003 FL corporate income tax returns anticipating that FL would not fully adopt the bonus depreciation provisions may file amended returns using Form F-1120X, Amended FL Corporate Income Tax Return. The amended return should have the words "bonus depreciation printed" on it to facilitate processing.
7. FL did not adopt the increase § 179 deduction allowed under the JGTRRA of 2003. The § 179 deduction is limited to \$25,000 when computing FL income tax.
8. When FLAHIGA (FL Life and Health Insurance Guaranty Association) refunds money to an insurer from a previous assessment and the insurer has claimed credit against its corporate income tax, the insurer is required to pay back part of that refund to the Department of Revenue.
9. The following businesses must file and pay electronically the following taxes:
 - Businesses whose tax liability was \$30,000 or more in the prior state fiscal year (7/1 – 6/30) in any of the following: sales and use tax and/or solid waste and surcharge; communications services tax; unemployment tax and fuel tax.
 - Businesses that file consolidated returns for sales and use tax.
 - Employers that filed unemployment tax for ten or more employees last year.
 - Any business or individual that file unemployment tax for five or more employers last year.
 - Businesses whose tax liability was \$30,000 or more in the most recent reporting period for intangible personal property tax.
 - All tax filers that must report information for tracking fuel movement.
10. FL has a business tangible personal property tax return that is due 4/1.
11. Being exempt under Public Law 86-272 does not necessarily exempt a company from filing a FL intangible tax return.
12. The intangibles tax return is reported as of 1/1 and is due 6/30. There is a sliding scale of discount (4% to 1%) if return is filed before 6/1. There is a minimum total penalty of 10% if return is filed after 6/30, and additional penalties and interest based on further delay in filing.
13. Beginning with the 1/1/2001 assessment date, a corporation's trade accounts receivable are exempted from the intangible personal property tax.
14. Parent corporations of an "affiliated group of corporations" can make an annual election to file a consolidated intangible tax return and thereby eliminate intercompany receivables and the parent's investment in its subsidiaries from the tax base.
15. In the past, all corporations were required to file an intangible personal property tax return. Effective 5/1/2002, a corporation, partnership, or affiliated group is no longer required to file a return if the tax due is less than \$60. However, if the corporation owes less than \$60 and elected to pay as agent for its shareholders, the Department does require notification of "zero tax due." Notification can be made using the internet or through FL's TeleFile system.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

GEORGIA

1. Initial net worth tax return must be filed for the first year of incorporation even if a short year. The tax is prorated based on the number of months in the short period. Net worth return only is due the 15th day of the third month of the date of incorporation or qualification.
2. GA taxpayer must add back state taxes that are measured by net income or net profits paid or accrued if the tax is deducted in determining the federal taxable income.
3. An affiliated group of corporations that files a consolidated federal income tax return must file a consolidated GA income tax return if all the corporation in the group derive 100% of their income from GA. If income is derived from within and outside GA the group may petition for consent to file a consolidated return. GA may require a consolidated return where they determine that filing separate returns would not clearly and equitably reflect GA income. Once permission is granted and assuming no revocation or no request to cease filing a consolidated return or the group does not cease to file a consolidated federal return, the group must file a consolidated GA return for all future tax years.
4. Replacement property must be located in GA for tax-free treatment to apply in an exchange or replacement situation.
5. GA has several tax credits available to companies doing business in the state, including flow-through entities.
6. If taxpayer makes quarterly estimated payments of \$10,000 or more to GA, payments are required to be made via EFT.
7. If a GA taxpayer is a party to state contracts, it may subtract 10% of qualified payments to minority subcontractors on state construction projects or \$100,000, whichever is less, per year.
8. All nonresident stockholders of a GA S corporation must execute a consent agreement whereby they agree to pay GA income tax on their share of the S corporation income in order for the S corporation to be recognized for GA purposes. This requirement may be eliminated by the S corporation filing a composite GA return. Attach copy of each Form 600S-CA to Form 600S; consent agreements must be attached even if filing a composite return.
9. Distributions from GA S corporations and partnerships to nonresidents are subject to withholding requirements, with certain exceptions.
10. GA has not adopted the IRC provisions for computing the additional depreciation deduction provided under the JCWAA of 2002 or JGTRRA of 2003. As such, GA depreciation should be computed using the old federal rules for depreciation.
11. GA does not conform to the JCWAA for NOL's. GA will continue to use the two-year carryback (with special rules for farmers and casualty losses) as provided under the old federal law. Also, the IRS election to relinquish the carryback period is binding in GA.
12. If a corporation has nexus in another state it can exclude sales delivered to states other than GA from the numerator but not the denominator in calculating the sales factor for apportionment.

HAWAII

1. A combined return vs. a consolidated return should be filed if any subsidiaries within group are not incorporated in HI.
2. The three-factor formula is to be used in apportioning business income to HI. If the taxpayer feels that the specific allocation rules do not fairly reflect its activity in HI, then a petition for a different method, including separate accounting is to be filed with the Director of Taxation.
3. If client does business in HI, verify filing of HI general excise and use tax returns.
4. HI does not conform to the NOL or bonus depreciation provisions of the federal JCWAA of 2002 or the bonus provisions of the JGTRRA of 2003.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

IDAHO

1. Corporations are required to add back state and local income tax deductions to federal income to arrive at ID income.
2. ID has separate NOL provisions. Accordingly, the NOL deduction claimed on the federal return must be added back to arrive at ID income. ID does not conform to the NOL provisions of the federal JCWAA of 2002.
3. Any dividends received deduction claimed on the federal return must be added back to arrive at ID income.
4. ID is, generally, a worldwide combined reporting state, but taxpayers may make a “water’s edge” election. A unitary combined return is required to be filed by those taxpayers that meet the applicable tests.
5. Each corporation required to file an ID income tax return is subject to the \$10 permanent building fund tax and the \$20 minimum tax. This includes each corporation included in a combined group.
6. There are credits available for contributions to ID educational entities and to ID youth and rehabilitation facilities.
7. Members of a combined unitary group must compute credits and apply the credit carryovers on a separate company basis.
8. ID follows the “Joyce rule” (i.e., sales into jurisdictions where a taxpayer is not subject to tax, but where another unitary member is subject to tax, are thrown back to ID) for purposes of calculating the sales factor.
9. ID allows a credit for investment in certain ID assets acquired during the tax year. Use Form 49 to report the credit. A list of the qualifying property must be attached to the return. (May elect property tax exemption in lieu of credit if had loss in 2nd preceding year from the year property placed in service.)
10. Corporations can elect to pay taxes for certain individual shareholders, and for ID compensation of officers and directors that is not reported to ID on their individual returns, if the apportionment factor is 50% or greater. .
11. A credit is allowed for new jobs, ID research activities, investment in broadband equipment, investment in production equipment using post-consumer/industrial waste and an incentive ITC.
12. ID does not conform to the federal bonus depreciation for either the 30% or 50% additional first year depreciation. If the bonus depreciation is claimed for property, then depreciation, adjusted basis, and any gains or losses related to that property must be computed separately for ID and the difference between the ID and federal amounts must be added or subtracted.
13. The ID 2004 legislature adopted the IRC § 179 provisions of the JGTRRA of 2003, thus increasing the amount that can be expensed to \$100,000 for property placed in service in taxable years beginning in 2003, 2004, and 2005

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

ILLINOIS

1. Corporations are allowed to subtract wages for which the federal Jobs Tax Credit (nondeductible under § 280C) was claimed or the municipal bond interest adjustment under § 832(b)(5)(B)(i) was claimed.
2. Adjustments to the tax base (e.g., foreign dividends, FSC adjustments, etc.) are often missed.
3. For years ending on or after 12/31/2000, IL employs a single sales factor apportionment formula. IL is a throwback state for sales factor apportionment.
4. All taxpayers are allowed a partial credit against the IL income tax for IL replacement tax paid. Review the calculations carefully.
5. IL requires unitary business groups to file a combined unitary return. The unitary business group cannot include any corporation whose business activity outside of the U.S. is 80% or more of its total business activity.
6. For taxable years ending on or after 12/31/2003, the Personal Property Tax Replacement Income Tax credit, the training expense credit, and the research and development credit, including all carry-forwards, have been eliminated.
7. Effective for tax years ending on or after 12/31/1999, the manner in which patents, copyrights, trademarks, and similar items of intangible personal property are treated changed for IL sales factor purposes.
8. In general, all members of a unitary business group must be able to use the same apportionment formula. For example, an insurance company, financial organization, and/or a transportation service company, all of which use special apportionment formulas, may not be included in a unitary group with each other or with a corporation required to use the general apportionment formula.
9. Effective for loss years ending on or after 12/31/1999, IL does not conform to the net operating loss provisions of § 172. Consequently, IL does not conform to the NOL provisions of the JCWAA of 2002 (e.g., the five year carry-back).
10. Effective for tax years ending on or after 12/31/2003, the carryforward period for net operating losses (NOLs) for corporations is reduced from 20 years to 12 years. No carryback of the NOLs is allowed.
11. Effective for tax years beginning on or after 1/1/2003, an election is available to treat all income other than compensation as business income.
12. IL does not conform to the federal bonus depreciation provisions of the federal JCWAA of 2002 or JGTRRA of 2003. A taxpayer who claims a bonus depreciation deduction on an asset on its federal return is required to add the bonus depreciation back to its IL net income. However, the taxpayer is also allowed to subtract an amount equal to three-sevenths (42.9%) of its regular federal depreciation on that asset, both in the year the taxpayer claimed the bonus depreciation and in subsequent years. With respect to luxury automobiles, if bonus depreciation would have exceeded the cap imposed by § 280F, then no additional subtraction is allowed, because no regular federal depreciation deduction is allowed (i.e., 42.9% of zero regular federal depreciation equals zero). In subsequent years, the taxpayer will be allowed a subtraction equal to 42.9% of the regular depreciation on the automobile, even if that results in depreciation in excess of the federal cap. When an asset is sold, the IL additions and subtractions are required to be reversed, resulting in the taxpayer receiving the same total depreciation for IL purposes as received for federal purposes and requiring no adjustment to the federal gain or loss on sale.
13. S corporations are subject to the Personal Property Tax Replacement Income Tax. See Form IL-1120-ST. However, an S corporation is entitled to a subtraction modification for IL income allocable to shareholders who themselves are subject to the Personal Property Tax Replacement Income Tax.
14. A life insurance company can only carry a loss back two years, in accordance with § 172 rather than three years, as provided for in § 810 with respect to operations losses of life insurance companies.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

INDIANA

1. The gross income tax is no longer applicable for tax years beginning after 12/31/2002. Also, the supplemental net income tax is no longer applicable for tax years beginning after 12/31/2002. Form IT-20 is now used to compute the Indiana adjusted gross income tax-8.5% rate (effective 1/1/2003).
2. Each member of an affiliated group filing a consolidated Adjusted Gross Income Tax return must have income from sources within IN, be affiliated as defined under IRC § 1504, and make the proper election on the form on its first annual return.
3. The apportionment factor includes a double weighting of the sales formula.
4. Add-backs to federal taxable income include state taxes based upon or measured by net income and charitable deductions.
5. Generally, an IN income tax refund resulting from a modification of a federal tax return must be claimed within six months of IRS notification.
6. Withholding of IN income tax from distributions to certain nonresident partners and shareholders of partnerships and IN S corporations is required.
7. Withholding of IN income tax from payments to certain nonresident corporations providing temporary contact services in IN is required.
8. IN does not conform to the federal NOL of the federal JCWAA of 2002.
9. IN does not conform to the federal depreciation provisions of the federal JCWAA of 2002 and JGTRA of 2003.
10. New/revised credits in IN include: voluntary remediation tax credit (Brownfield Remediation), venture capital investment tax credit (2004 through 2008). Eligibility for these credits requires prior approval from various Indiana Government departments (e.g., Department of the Commerce).
11. IN Research Tax Credit increases in 2003 (from 5% to 10% of qualified expenditures) and eliminates apportionment of credit. This research credit is now extended through 12/31/2013. Schedule IT-20REC must be attached.
12. Expansion of EDGE (Economic Development for a Growing Economy) Program as a Job Retention Credit is effective for 2003 and 2004.
13. Determine whether eligible for various other IN tax credits: e.g., contributions to IN colleges/universities, neighborhood assistance credit, enterprise zone employment/loan interest, 21st Century Scholars program, Teacher Summer Employment Tax Credit, Capital Investment Tax Credit, Community Revitalization Enhancement District Credit.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

IOWA

1. IA allows a corporation to deduct 50% of federal taxes paid or accrued. For corporate income taxpayers, 50% of a federal income tax refund, including interest, is added to federal taxable income in the year received. Review calculation of federal tax for a single return filed in IA by a member of a consolidated group.
2. Add back IA tax expense on the other additions schedule. No add-back is required for income taxes imposed by other states.
3. Review the definition of non-business income because it is often miscalculated, as it is a very limited concept.
4. The election regarding items of income (capital gains and losses, and investment income) to be included in the business activity ratio is binding and must be followed consistently. A taxpayer cannot elect to exclude or include investment business income where the election could result in an understatement of net income reasonably attributable to IA. A taxpayer cannot elect to include some investment business income in and exclude other investment business income from the business activity formula. The election applies to all investment income of the taxpayer subject to the election.
5. Separately calculate a separate basis NOL while the corporation is doing business in IA.
6. Only members of an affiliated group that have IA nexus are allowed to be included in an IA consolidated return.
7. Income from intangible assets, that has become an integral part of some business activity occurring regularly in or outside of IA, is required to be included in the calculation of the business activity ratio (i.e., the single-factor apportionment formula).
8. IA does not require throwback of sales that are shipped from IA to states where a corporate taxpayer is not taxable.
9. Under IA's rules, sales of other than tangible personal property are sourced to IA if the recipient receives all of the benefit of those services derived in IA, rather than where the costs to perform the services are incurred. If some, but not all, of the benefits are received in IA, the receipts are includable proportionately.
10. IA's research and development credit is refundable, or creditable to the corporation's tax liability for the following year.
11. According to IA Code, IA nexus can be created based solely upon the presence of intangible assets within the state.
12. For sellers of tangible property, the numerator of IA's single-factor apportionment formula does not include throwback and is based upon the destination of the sale, not the F.O.B. terms or where it is picked up.
13. IA does not conform to the federal NOL and depreciation provisions of the federal JCWAA of 2002 or the JGTRRA of 2003. However, the IA Department of Revenue has indicated that it will conform to the increase § 179 in the 2004 legislative session, and therefore did not require adding back the increase § 179 on 2003 return.
14. IA does allow for the § 114 extraterritorial income exclusion.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

KANSAS

1. If two or more corporations file federal income tax returns on a consolidated basis, and if each of such corporations derives all of their income and expenses from sources within KS, they *must* file a consolidated return for KS income tax purposes. However, for corporations filing a consolidated federal income tax return that do not derive all of their income from sources within KS, a consolidated return *may* be filed.
2. State, local and foreign taxes that are measured by income are to be added back to federal taxable income.
3. For multi-state consolidated corporations, KS utilizes a three-factor apportionment formula (payroll, property and sales). Property used for the production of non-business income is not included in the property factor. Construction in progress is not included in the property factor until the property is available for use. If a corporation's payroll factor exceeds 200% of the average of the property and sales factor, an election may be made to use a two-factor apportionment formula (sales and property).
4. State and municipal interest paid to any state other than KS and its political subdivisions is an add-back to federal taxable income.
5. Other additions to federal taxable income include business expense or depreciation deductions claimed on your federal return for making your business accessible to the disabled for which a KS tax credit is available, for charitable contributions claimed that are used as the basis for computing KS community service contribution credit, any charitable contribution made to any racially segregated educational institution, federally exempt interest, any ad valorem taxes paid and costs incurred for threatened wildlife habitat management, cost of improvements to a swine facility and nonqualified withdrawals from a Learning Quest account.
6. A KS NOL carryforward schedule should be attached to keep track of loss years. The federal NOL deduction must be added back as a modification to federal taxable income. A KS NOL deduction may be claimed on line 18 of the K-120. KS NOL deductions are computed separate for each KS taxpayer by multiplying each legal entity's apportionment ratio against the combined apportionable loss in the loss year. The KS NOL deductions may be carried forward for up to ten years but each KS taxpayer may only use their KS NOL deduction to offset their own KS taxable income. Any remaining NOL after 10 years may be refundable by the amount that would have been available if the NOL were carried back three years.
7. Taxpayers should make themselves aware of the different kinds of credits available. Many of the federal credits are not available but KS does have several credits available. Beginning in tax year 2006, a new tax credit is allowed of 50% of contributions made to the Kansas community entrepreneurship fund. The credit is capped at \$2M per fiscal year. The contribution for which the credit is claimed must be added back. For tax years 2005 and after, the investor tax credit replaces the venture capital investment tax credit and provides a credit of 50% of contributions for "seed capital" funds with a \$2M/year limit and a \$20M limit over the life of the program.
8. KS follows federal bonus depreciation including the additional 20% under the federal JGTRRA of 2003.
9. Effective 7/1/2003, for all tax years ending after 12/31/2002, all partnerships, S corporations, LLCs and LLPs with nonresident owners are required to withhold 6.45% income tax on the nonresident owner's share of the KS taxable income of the entity. Nonresident owners may "opt-out" by filing an affidavit, Form KW-7A.
10. For S corporations, other income or losses and deductions that are added to federal ordinary income from federal Schedule K should not include items that would affect the itemized deductions of the shareholders.
11. For S corporations, there is a box in Part II, page 2 to check if the shareholder is a nonresident. Since modifications for nonresident income are included in the allocation from Part I, no further modification to S corporation income is needed on the KS individual income tax return.
12. For S corporations, see instructions for the credits available that flow through to the shareholder and are not shown on the Form K-120S.
13. Insurance companies, banks, trust companies, and savings and loan associations are exempt from KS corporate income tax and may not be included in the combined group. However, national bank associations, banks, trust companies and savings and loan associations must file a Privilege Tax return and insurance companies are subject to a premium tax.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

KENTUCKY

1. S corporations and partnerships must apportion 100% of income to KY if 100% of real or tangible personal property and 100% of payroll is in KY. Payroll is not considered to be outside of KY if the activity of the employee does not exceed the threshold of P.L. 86-272.
2. For entities that may apportion income outside of KY, the standard apportionment methodology does not contain a throwback rule.
3. When apportioning income to nonresident owners of an S corporation or partnership that has property or payroll both within and without KY, a single factor gross receipts formula is used instead of the standard three-factor apportionment method. Nonresident owners of an S corporation or partnership that has all of its property and payroll within KY are taxed at 100% of their distributive share.
4. Consolidated income tax reporting must be affirmatively elected and is binding for a 96-month period. Generally, separate entity reporting is required for license tax purposes. However, certain corporations (holding companies domiciled in KY) may elect to file a consolidated license tax return if the holding company owns 50% or more of the subsidiaries stock. The subsidiary or subsidiaries must comprise 50% or more of the holding company's assets. This is an annual election and is made separately from the election for consolidated income tax reporting. These corporations (holding companies domiciled in KY) may also use separate entity reporting for license tax purposes. As of 1/1/2003, the reduction of license tax based on its book value of investments in any corporation in which it owns more than 50% of the corporation's outstanding stock has been ruled unconstitutional and eliminated for all taxpayers.
5. Generally, the same method used to apportion total income to KY should be used to apportion the total license tax base to KY. Debt incurred to purchase inventory may be excludable from the license tax base if strict documentation requirements are satisfied. Certain liabilities, such as deferred tax liabilities, may be excludable from the license tax base to the extent they can be netted against a corresponding asset such as deferred tax asset. The courts provided that deferred tax assets can reduce the tax license base. The reduction is not limited to the extent of deferred tax liabilities. The number of such liabilities that may be excluded is limited.
6. There is no prior year safe harbor with respect to C corporation estimated tax payments. At least 70% of current year income tax must be paid as estimated tax payments for every corporation whose income tax exceeds \$5,000. The due dates are the 15th of the 6th, 9th, and 12th months of the corporate year with 50% of the total estimated tax due on the 15th day of the 6th month of the corporate year.
7. S corporations having 15 or more full-year nonresident individual shareholders with no other KY income may file a combined return with permission from the Revenue Cabinet.
8. KY has not adopted the IRC provisions for computing the additional depreciation deduction provided under the JCWAA of 2002 or JGTRRA of 2003. As such KY will not allow the 30 percent bonus depreciation or the 5-year net operation loss carryback. KY does not conform to the NOL provisions of the Act.
9. KY will allow a deduction for the federal adjustment to research and development and welfare to work credits.
10. KY sales to the US government and the state of KY may be excluded from the numerator of the sales apportionment calculation, but included in the denominator.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

LOUISIANA

1. For franchise tax purpose, LLC's are always treated as partnerships and are not subject to the tax.
2. There is no business/non-business income distinction in LA. Allocable income is defined in the law.
3. Ownership of a partnership interest, limited or general, or LLC interest, will subject a corporation to LA franchise tax.
4. Double-weighted sales factor for manufacturing businesses ONLY for franchise tax. Manufacturing or merchandising businesses for franchise tax can double weight the sales factor for income tax purposes for years beginning 1/1/1997 which is reported on the income tax return beginning on 1/1/1996.
5. IRC § 311(b) gain is deferred for LA purposes if such gain is deferred for federal purposes under IRC §1502; the deferred gain is restored to income in the year it would be restored to a member of the affiliated group under IRC §1502. The income will also be restored if the distributing corporation merges with another corporation, reorganizes, or ceases to be liable for corporate income tax.
6. All Industrial Revenue Bonds should be included in the franchise tax base.
7. Revenue from a partnership means the partner's share of net income of the partnership, not the partner's share of gross receipts from the partnership for franchise tax revenue factor purposes.
8. All debt from an affiliate is included in the franchise tax base, regardless of its term outstanding, unless the debt is the result of normal trading accounts.
9. No federal income tax deduction allowed if no LA income tax paid in the current year; for instance, if the corporation has a LA NOL.
10. When a corporation has deferred tax assets and deferred tax liabilities the two are netted. Any net liability is included in the franchise tax base. Any net asset is removed from assets and an equal amount removed from the tax base as a reduction of surplus.
11. LA does not recognize S Corporations. Thus, an S Corporation is required to file as a C Corporation. However, LA provides an S Corporation with an exclusion of its LA net income. The exclusion is calculated by multiplying its LA net income by a ratio of the number of issued and outstanding shares owned by a LA resident by the total number of issued and outstanding shares of the entire S Corporation at the end of a taxable year.
12. Certain partnerships and limited liability companies with nonresident partners or members are required to file composite returns and make composite payments of Louisiana personal income tax for nonresident partners or members who do not agree to file Louisiana personal income tax returns and pay tax on their own behalf. In general, corporate partners cannot be included in composite returns filed by partnerships. However, certain publicly traded partnerships may request the Secretary of Revenue's permission to file a composite return and make a composite payment on behalf of all partners, including corporations and tax-exempt trusts.
13. LA does not conform to the NOL provisions of the JCWAA of 2002. LA only allows a three-year NOL carryback provision.
14. LA has adopted the IRC provisions for computing the additional first year depreciation deduction provided under the JCWAA of 2002 as it relates to corporate tax. As such, LA will allow the 30% bonus depreciation deduction for corporations. LA has also adopted the IRC provisions for computing the depreciation deductions under the JGTRRA of 2003.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

MAINE

1. ME uses federal taxable income to derive ME taxable income, with minor adjustments.
2. ME uses a three-factor allocation formula, with the sales factor double-weighted. ME follows the Joyce rule (i.e., sales into jurisdictions where a taxpayer is not subject to tax, but where a unitary member is subject to tax, are thrown back to ME) for purposes of calculating the sales factor.
3. ME requires a corporation that is a member of an affiliated group of corporations engaged in a unitary business to file a combined report based on the federal taxable income of the unitary group. A unitary business is one that is characterized by unity of ownership, functional integration, centralization of management and economies of scale.
4. There is no separate ME NOL calculation. Beginning with the 2002 tax year, taxpayers will no longer be required to add back, in the year of the loss, net operating losses being carried back for federal income tax purposes. The effect is that a federal loss can be used to offset ME addition modifications in the year of the loss.
5. ME imposes a minimum tax based upon the federal minimum tax.
6. ME has a variety of credits against tax, including a jobs and investment tax credit, an employer-assisted childcare tax credit, and a research expense tax credit.
7. S corporations are not subject to the ME corporate income tax, unless the S corporation has federal taxable income at the corporate level. Partnerships and S corporations file ME information returns. LLCs are classified as partnerships for ME income tax purposes, unless classified otherwise for federal income tax purposes. ME also imposes a withholding requirement on pass-through entities with respect to nonresident members, partners or shareholders of the pass-through entity.
8. Financial institutions are subject to a ME franchise tax, rather than the corporate income tax.
9. ME will not conform to the bonus depreciation and § 179 expense deduction increases. As a result, the addition modification for the net effect of the bonus depreciation includes both the 30% and 50% claims. Taxpayers will be allowed to recover these add-backs in future years. The bonus depreciation add-back required for taxable years beginning in 2002 may be recovered in equal installments over the remaining life of the asset beginning in taxable years that begin in 2004. Add-backs for both the bonus depreciation and § 179 property required in taxable years beginning in 2003, 2004 and 2005 may be recovered 5% in the year following the year the eligible property is placed in service and 95% in equal installments over the remaining life of the asset beginning 2 years following the year the property is placed in service.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

MARYLAND

1. Consider the statutory modification in NOL years, and carryback and carryforward years.
2. The MD financial institution franchise tax was eliminated in 2001. Now, financial institutions are subject to tax at the 7% corporate income tax rate.
3. Consider the new regulations regarding sourcing of receipts for banks under the corporate income tax.
4. Consider the apportionment and sourcing of receipts under the market-sourcing rule for service businesses and the two-factor (receipts and property) for rental and leasing businesses.
5. Interest, capital gains, and other income from intangibles must be apportioned by MD regulations.
6. The administrative position is to follow the federal due date for short period returns.
7. Consider the electronic funds transfer (EFT) payment requirements.
8. MD does not have a separate NOL provision. However, MD's starting point for determining MD taxable income is federal taxable income after NOL and special deductions (i.e., line 30). However, line 1 of the MD return may not be less than zero except to report an NOL incurred in the current year. Therefore, consider that no modification of the federal NOL or special deductions is allowed under MD income tax law except in the case of a foreign source dividend subtraction. Refer to Administrative Release No. 18 for additional information.
9. MD does not conform to the bonus depreciation or NOL provisions of the federal JCWAA of 2002. Consider MD income tax modifications that may be needed because MD is not conforming to these provisions of the federal JCWAA of 2002. Decoupling Modification (Form 500DB).
10. For property factor apportionment, expenses related to property leased or rented (e.g., property taxes, insurance) included in with rental expense amounts multiplied by 8.
11. Consider the single factor apportionment formula applicable to manufacturing corporations.
12. Consider the various MD tax credits available to MD taxpayers. Note that some credits require pre-approval and/or application to be submitted to various MD agencies before the credits can be claimed on Form 500CR Credits include: Enterprise Zone, Employment Opportunity, Individuals with Disabilities, Jobs Creation, and Focus Area., Neighborhood partnership contributions, New Jobs Credit, Heritage Area Credit, Research and Development, Commuter Tax Credit, and Clean Energy Tax Credit.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

MASSACHUSETTS

1. MA does follow § 338(h)(10) with regard to calculation of taxable income, i.e., the gain is generated in the company with the deemed asset sale. However, for MA apportionment purposes (for a business corporation), receipts from sales of securities are not included in the sales factor; and receipts from sales of stock pursuant to § 338(h)(10) are considered receipts from the sale of securities and are excluded from the sales factor.
2. In the context of a combined return (computed after all reporting members have separately allocated and apportioned net income), losses may be used by the company that generated the losses in computing its separately allocated and apportioned net income. In the year of the loss, the group may share it on a post apportionment basis. After that, it becomes "SRLY" (i.e., limited to the corporation that generated the loss).
3. Continuing research credit, calculated on Schedule RC, must be added back as income on Schedule E.
4. The MA statute sets forth different classification formulas to be used by foreign and domestic corporations in calculating net worth tax for intangibles companies. In *Perini Corp. v. Commissioner of Revenue*, the state high court declared this scheme to be unconstitutional. Taxpayers now can choose either formula.
5. MA recognizes the flow through of S corporations but requires the filing and paying of the property measure of the tax and at least the minimum excise of \$456.00 for S corporations doing business in MA. S corporations with gross receipts over \$6 million must pay a tax at the corporate level on income earned by the S corporation. In addition, the income flows through and is taxed at the individual level. S corporations with receipts over \$6 million pay a tax of 3% and S corporations with receipts over \$9 million pay a tax of 4.5% of taxable income.
6. Corporations engaged in substantial manufacturing and mutual fund service corporations apportion income using a single-sales factor formula.
7. Two or more members of a corporate group filing a federal consolidated return and that have nexus in MA may elect to file a combined MA return. Each member separately apportions their income, then all members are combined thereafter.
8. Effective 1/1/2002, related party intangible expenses and costs and interest expenses and costs arising in connection with intangible property, as well as related party interest expenses unrelated to the production of intangible income, must be added back to income. Exceptions involve showing that the principal purpose of the transaction was not tax avoidance.
9. MA throwback rules are based on the location from where the property is sold. Called the "sales office origination" test, the effect is that a sale is a MA sale if sold to a customer in a state where the taxpayer is not subject to tax and the sale was not made from an office owned or rented by the taxpayer outside MA. This throwback rule is very different from most states that generally use a "shipped from" test.
10. The tax is based on two measures; a property measure and an income measure. The property measure is \$2.60 per \$1,000.00 of net worth or tangible property in-state, whichever is applicable. The income measure is equal to 9.5% of the MA taxable income. The total of the two measures equals the tax. The minimum tax is \$456.00.
11. MA does not conform to the federal bonus depreciation provisions of the federal JCWAA of 2002 or JGTRRA of 2003.
12. No dividend received deduction is permitted with respect to dividends received from a real estate investment trust, for both corporate excise and financial institution excise tax purposes. The effective date of the provisions is retroactive to tax years ending on or after 12/31/1999. Effective 7/1/2003, the definition of security corporation is changed to exclude those entities that have an ownership interest in a related entity that is a REIT.
13. Effective 3/5/2003, qualified subchapter S subsidiaries (QSUBs) become subject to the corporate excise tax on any income to the extent such income would have been taxable under federal law had the QSUB been treated as a separate entity.
14. The 3 % investment tax credit has been extended through 1/1/2009, at which time the credit amount will revert to 1 %.
15. Effective 7/1/2003, any LLC, foreign LLC, or other entity that makes a federal election to be disregarded as an entity separate from its sole member and has, as its sole member, an S corporation for federal income tax purposes, will be separately taxed as an S corporation, domestic or foreign.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

MICHIGAN

1. Written authorization is required before filing on a consolidated basis. See RAB 89-49 for requirements that must be met before Department will grant permission.
2. Taxpayer must determine whether an entity is a financial or non-financial organization based on nature of the entity, assets, or gross receipts (see Mich. State Ann. § 208.10(4) for definition). Non-financial organizations subtract interest income from the tax base and include interest expense as an add-back to the tax base.
3. Business income is based on federal taxable income as computed under IRC of 1986 in effect as of 1/1/1999 or, at the option of the taxpayer, in effect for the tax year.
4. For purposes of the compensation add-back, and the payroll factor of the apportionment formula, salaries, wages, and other payments to employees should be reflected on a cash basis (e.g., from federal Form 940).
5. The add-back for pension, retirement, and profit sharing plans include employer portion of 401(k) contributions. In addition, starting in the 2004 tax year, 5% of the payments under health and welfare and noninsured benefit plans made by taxpayers for the benefit of MI residents, and payments of fees for the administration of such plans, is deductible from compensation subject to the SBT.
6. For tax years ending before 2000, the taxpayer can claim a Capital Acquisition Deduction (CAD) equal to the cost of assets acquired in MI subject to apportionment. For tax years beginning after 1999 the taxpayer can claim a MI Investment Credit related to the cost of tangible assets physically located in MI. Recapture provisions also apply to the previously claimed credit. See Form C – 8000ITC for more information.
7. Income and losses from partnerships or other pass-through entities owned by a corporation, other than single member LLCs, are excluded from the single business tax (SBT) base of corporations, as these entities are subject to tax on a separate entity basis whether they have a MI filing requirement or not.
8. Nexus standards differ significantly in MI since P.L. 86-272 does not apply. See MI Revenue Administrative Bulletin 1998-1, 2/24/1998. Effective 1/1/2000, the application of the SBT to foreign persons has been modified. Foreign companies doing business in MI (beyond remote selling) are now required to pay SBT even if they do not have a permanent establishment in the state. See RAB 2001-2.
9. Beginning 1/1/1999 the tax rate is reduced by .1% each year that the state's Rainy Day Fund reports an ending balance of more than \$250 million. For tax years ending 12/31/2003, the rate is 1.9%. The 2004 rate remains at 1.9% because the fund balance dropped below \$250 million.
10. Certain persons qualify for a Small Business Credit if gross receipts do not exceed \$10,000,000, adjusted business income does not exceed \$475,000 for the firm and \$115,000 for an individual shareholder or officer.
11. An alternate tax calculation of 2% of adjusted business income is available to qualifying corporations whose gross receipts do not exceed \$9 million, adjusted business income, after loss adjustment, does not exceed \$475,000, and no shareholder or officer has allocated income, after loss adjustment, over \$95,000. Additional restrictions apply, see Form C-8044.
12. If compensation comprises more than 63% of the SBT base or the adjusted tax base is greater than 50% of gross receipts plus recapture, a reduction to the tax base is allowed. However, the ITC is not available if a gross receipts reduction to the tax base is taken.
13. MI allows the bonus depreciation deduction in computing the federal taxable income amount that is the tax base for the SBT. However, the federal depreciation deduction must be added to federal taxable income for purposes of determining the MI tax base.
14. Members of an affiliated group that are MI taxpayers, have inter-corporate transactions of a substantial nature, and used the same apportionment formula may request permission to file a consolidated SBT return. See RAB 1989-49 for additional information.
15. The SBT apportionment formula is weighted 5% property factor; 5% payroll factor; and 90% sales factor.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

16. Effective 10/1/2003 flow-through entities are required to withhold taxes on the distributive share of income to its non-resident members. The withholding tax requirement abolishes any quarterly estimated tax payment requirements for composite filers effective for payments due after 10/1/2003. Entities not previously registered for withholding taxes with the Department must complete and file form 518, Registration for MI Taxes, prior to remittance of any payments. See RAB 2003-4 for further information on withholding requirements. Alternatively, non-resident members who have MI source income from one or more flow-through entities may elect to be included in the composite income tax return of the respective flow-through entity.
17. Effective 7/14/2003, Public Act 52 of 2003 expanded the definition of “business income” to include (a) gains or losses from stock and securities of any foreign or domestic corporation, (b) dividend and interest income, (c) income derived from isolated sales, leases, assignments, licenses, divisions or other infrequently occurring disposition, transfers or transactions involving property if the property was used in the taxpayer’s trade or business operations, and (d) income derived from the sale of a business.
18. MI allows the extraterritorial income exclusion because the IRC is incorporated by reference.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

MINNESOTA

1. A corporation is allowed to claim a credit for qualifying taxes paid to another state multiplied by the taxpayer's apportionment percentage. If the income is assigned to MN as non-business income, the entire amount of the qualifying tax is allowed as a credit.
2. For tax years beginning on or after 1/1/2001, the MN deduction for charitable contributions is the same as federal.
3. MN does not allow a capital loss carry back; the losses must be carried forward up to 15 years.
4. MN requires the filing of a single return to reflect the activities and tax liability of a unitary group of corporations.
5. The unitary group includes all group members, regardless of whether any individual corporation has nexus in MN.
6. MN follows "water's-edge" style unitary combination.
7. Foreign sales companies (FSCs) are eligible to be included the MN unitary group.
8. The limitation under § 382 applies dollar-for-dollar against a MN NOL.
9. Dividends received from foreign corporations are eligible for the MN dividend received deduction to the same extent as dividends from domestic corporations.
10. For tax years beginning after 12/31/2000, apportionment factors are weighted as follows: property 12.5%, payroll 12.5%, and sales 75%.
11. MN imposes an alternative minimum tax similar to the federal AMT in addition to the basic franchise (income) tax.
12. MN imposes a minimum fee, ranging from \$100 to \$5,000, on each corporation with total MN apportionment factors exceeding \$500,000. S-Corporations are also subject to the minimum fee.
13. MN allows an 80% deduction for royalties, fees or similar income accrued or received from a foreign operating corporation (FOC) or foreign corporation that is part of the same unitary business as the receiving corporation. Income that qualifies for this deduction is not included in the sales factor for apportionment purposes.
14. For apportionment, receipts from the performance of services are attributed to the state in which the services are received.
15. MN has not fully adopted the 30% bonus depreciation provided under the JCWAA of 2002 and the 50% bonus depreciation under the JGTRRA of 2003. MN will follow a modified format. MN disallows 80% of the bonus depreciation in the first year and then allows the taxpayer to recapture that 80% over the next 5 years in equal installments.
16. Electronic/phone payment: Corporations can pay their tax due via the internet or by phone even if they file a paper return by using the department's *e-FILE Minnesota* system. There is no charge for using this service. To pay electronically over the Internet go to www.taxes.state.mn.us and follow the *e-FILE Minnesota* links. To pay by phone, call 1-800-570-3329. For both types of payments, you will need your MN tax ID number, password, and your bank routing and account numbers.
17. Effective for tax returns due after 12/31/2002, all S corporations are granted an automatic 6-month extension if all taxes payable or the year are paid in by the original due date.
18. MN adopted the increased § 179 deduction threshold under the JGTRRA of 2003. The deduction is increased to \$100,000 and the phase-out starts at a total investment of \$400,000.
19. MN adopted the 2003 change to the federal tax code, which incorporates increasing the allowance for expensing of capital assets.
20. New in 2003, Schedule KC (Composite Schedule) and MW3NR (Income Tax Withheld for Nonresidents) have been eliminated. The information has now been added to Schedule KS and Schedule KPI.
21. Beginning after tax year 1/31/2003 the penalty for filing a frivolous return has increased from a flat \$500 to the greater of \$1,000 or 25% of the tax that should have been shown on the return.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

MISSISSIPPI

1. When making adjustments as instructed to in the MS income tax returns, the taxpayer must back-out any gains and/or losses from the Federal Schedule D on Form 4797. A taxpayer needs to be sure to use the MS Forms 83-135, 83-140 and/or 83-145 to add MS's share back to MS taxable income or loss.
2. If a corporation or other entity sells the stock of an MS domestic corporation or interest in an MS LLC, LLP or limited partnership that it has held for a year or more, any gain from the sale is exempt from MS income tax. However, gain must be reported, to the extent depreciation and amortization of property and assets was taken.
3. Construction contracts, oil and gas production, and other natural resources, except timber, must be accounted for by using a direct or separate accounting basis.
4. Franchise Tax-- For tax returns for tax years ending on or after 1/1/1999, the MS gross receipts for franchise taxes will be the same as that used in the receipts or sales ratio as contained in the apportionment formula used to apportion the income tax. If the apportionment formula for income tax does not have a receipts or sales factor, then the method will be determined by regulation of the commission.
5. An LLC will report its income to MS in the same manner as it does for federal. If an LLC files as a corporation for federal purposes, then it will be subject to MS franchise tax. If a single member LLC is disregarded for federal purposes, then the LLC will not be subject to MS franchise taxes, but will be treated as a division and its factors and equity will be included in its parent's return.
6. For tax returns ending on or after 12/31/2001, taxpayers shall include their portion of a flow-through entity's property and receipts factors in their apportionment factors for determining franchise tax.
7. Effective for tax years beginning on or after 1/01/2001 the definition of business income was revised to clarify and delineate both the transactional and functional relationship tests.
8. § 482 compliance is not a safe harbor for determining whether a transaction is considered arms-length for MI tax.
9. The 30% bonus depreciation provided under the JCWAA of 2002 and the 50% bonus depreciation provided under the JGTRRA of 2003 is not allowed in MS. Taxpayers will need to compute MI depreciation based on the MACRS rules that applied prior to the federal changes. Due to this difference, a property's depreciable base will generally be higher for MS than for federal tax purposes. MS adopted the increased § 179 deduction threshold under the JGTRRA of 2003. The deduction is increased to \$100,000 and the phase-out starts at a total investment of \$400,000.
10. MS does not conform to the NOL provisions of the JCWAA of 2002. Carry back and carryover periods for net operating losses are back 2 years and forward 20 years.
11. For tax years beginning on or after 1/1/2002, income that is considered unrelated business taxable income for federal income tax purposes will be considered taxable income for MS purposes as well. Shareholders, including ESOPs, in an S corporation must report all income from the S corporation and pay the tax thereon, regardless of whether the shareholder is otherwise exempt from income tax or not. Corporate organizations filing federal Form 990-T are required to file MS Form 83-105 and supplementary schedules.
12. Every corporation, other than a QSUB, either registered to do business in MS or otherwise doing business in the state must file a combination income and franchise tax return. The term "combination" is used to indicate two separate taxes, which are computed on a single return. The corporation will compute its MS income/loss and its taxable capital on a separate company basis. An "affiliated group" of corporations may elect to file on a combined basis, for purposes of income tax, provided the requirements of Reg. 807 are met. The term "combined" is used to indicate an election, where the separately computed net income/loss of a group of affiliated corporations is summed, in order to determine the net income subject to tax.
13. A taxpayer, regardless of the accounting method used, may not elect installment sales treatment in order to defer the recognition of income. However, the law does provide for a deferral of the tax payment provided the sale or other disposition of property is eligible for installment sales treatment for federal tax purposes and is in fact deferred for federal income tax purposes. If a taxpayer has not elected out of the installment method for federal tax purposes, the taxpayer will be considered to have made an election to defer the tax payment for state tax purposes. The taxpayer may elect out of the tax deferral by attaching a statement of such to the return in the period of the sale, recognizing all gain on any sales for the period, and paying all taxes, interest, penalties, and assessments for the period in question.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

MISSOURI

1. A group of corporations that has income within and without MO and files a consolidated federal income tax return may elect to file a MO consolidated on or before the due date, including extensions of time, for filing the MO tax return. The consolidated election may be withdrawn or revoked upon permission of the director or upon substantial change in the law or regulations. A unitary business must file a consolidate return.
2. For multi-state consolidated or separate return corporations, MO uses a three-factor apportionment formula (sales, payroll and property) or an alternative method if income is not fairly represented. Separate return filers may elect, with petition to the director at least 60 days prior to the end of any taxable year, a one-factor formula. If the one-factor formula is used, all income is business income. Consolidated return filers may also petition for use of the one-factor formula if each member of the consolidated group qualifies for the single-factor method. The method elected must be used by the entire consolidated group.
3. MO allows a C corporation to deduct 50% of federal tax as shown on federal tax return and properly apportioned to MO.
4. MO C corporation rules generally follow federal taxation. However, MO law will not allow federal taxable income to be reported as a negative number on line 1 of the MO return. The properly apportioned MO portion of NOLs may be carried forward 20 years and back 2 years. When corporations file a consolidated federal tax return and a separate MO return, losses are tracked on a separate company basis.
5. Interest income received on state and local obligations, other than those of MO and its political subdivisions, must be added back to federal taxable income.
6. State and local income taxes paid must be added back to federal taxable income.
7. MO law provides tax credits for both the investment in and the creation of certain new jobs within and around an enterprise zone. Must submit Form 135.258, *Tax Benefit Letter of Intent*, 15 days prior to commencement of commercial operations at the development. MO does not allow many of the federal tax credit and does have some MO specific credits.
8. Withholding is required for non-resident S corporation shareholders unless the shareholders participate in a composite return or file an affidavit agreeing to be subject to MO's taxing jurisdiction.
9. The amount of the 30% federal "bonus depreciation" deduction allowed under the JCWAA of 2002 must be added back to federal income for such assets purchased between 7/1/2002 and 6/30/2003. However, the 50% bonus depreciation allowable under the JGTRRA of 2003 is allowed.
10. For franchise tax purposes total assets should be reduced for investments in or advances to subsidiaries greater than 50% owned. In addition, the regulations provide that advances upward to the parent and cross-company advances may also be deducted.
11. For franchise tax purposes LLCs and non-stock companies are not required to file a franchise report. Franchise tax is only imposed on corporations. LLCs and other non-corporate entities are not subject to the tax even if they are treated as corporations for federal and MO income tax purposes.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

MONTANA

1. Capital losses are deductible in the year incurred without being subject to the federal limitation.
2. A financial institution may not use a reserve method in computing its deduction for loan losses; it must use the specific charge-off method.
3. If desired, the “water’s edge” election is due within the first 90 days of the taxable year for which the election is to be effective. This election is a renewable election; therefore, every three years a taxpayer must renew again within the first 90 days for the election to be effective. If the first tax period for which the election is to become effective is less than 90 days, the taxpayer will have until the end of the tax period to file the election.
4. In the event of a merger of corporations, the NOL carryovers of both the target and the survivor are lost.
5. MT does not generally exempt from taxation interest earned from investments in state, municipal and federal government obligations.
6. Banks and thrifts can be included in consolidation or combined MT returns.
7. Corporate taxpayers are allowed a credit for a percentage of the value of a gift made during the tax year to a qualified MT endowment or for their proportionate share of a charitable gift made by a pass-through entity. The credit may not exceed the tax liability and is non-refundable and may not be carried over. The value of the gift used in calculating the credit may not be claimed as a contribution deduction on the MT return. Note that corporations and pass-through entities can make outright gifts and are not limited to planned gifts. For gifts by corporations or pass-through entities, a credit is 20% of the value up to a maximum credit of \$10,000 per taxpayer for gifts made on or after 7/1/2003. For gifts made 8/28/2002 through 6/30/2003 the credit is 13.3% up to a maximum credit of \$6,600.
8. MT conforms to the bonus depreciation provisions of the federal JCWAA of 2002 and JGTRRA of 2003.
9. MT does not conform to the federal NOL rules. MT allows NOLs to be carried back three years and forward seven years.
10. MT also allows various tax credits, per Schedule C. These tax credits include: MT Capital Company Credit, New/Expanded Industry Credit, MT College contribution Credit, MT Recycle credit (Form RCYL), Alternative Energy Production Credit, Increase Research and Development Activities Credit, Day Care Facilities credit and Dependent Care Assistance Credit. New credits for 2003 are the Developmental Disability Account Contribution (30% of amount donated to the MT Developmental Disability Service Account up to maximum \$10,000 credit) and the Empowerment Zone Credit (for tax periods on or after 10/1/2003).
11. For S Corporations, for tax years beginning after 12/31/02, a MT Nonresident Income Tax Agreement (Form PT-NRA) submitted with the 2003 information return is now in effect for all subsequent years the nonresident individual remains a shareholder, an annual renewal no longer required as long as a 2003 Form PT-NRA is filed.
12. For tax years beginning after 12/31/02, nonresident individuals, foreign C Corporations, or certain pass-through entities that are S shareholders may elect to participate in filing of composite return. S Corporations with Nonresident individuals, who do not elect to participate in the composite filing, and do not complete a Form PT-NRA, MT Nonresident Income Tax Agreement, must remit Form PT-WH (Shareholder Withholding) when filing the MT S corporation return.
13. MT corporation (license) income tax regulations now specify the apportionment formula to be used by taxpayers with income from both inside and outside MT that are in the business of (1) publishing, selling, licensing, or distributing printed material or (2) broadcasting film or radio programming. The regulations bring MT's rules into conformity with the rules and guidelines adopted by the Multistate Tax Commission. Publishers, distributors, and broadcasters continue to be subject to the standard allocation and apportionment formula, but special rules clarify the calculation of the property, payroll, and sales factors.
14. MT has adopted regulations that conform to the Multistate Tax Commission's (MTC) rules and guidelines interpreting federal P.L. 86-272 for MT corporation license (income) tax purposes (ARM 42.26.501 through 42.27.511, MT Department of Revenue, effective April 23, 2004.)

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

NEBRASKA

1. NE has repealed the throwback rules in connection with corporations doing business in states other than NE where the corporation does not have nexus. Sales in these non-nexus states are no longer “thrown back” into the numerator of the NE apportionment factor.
2. Determine whether the taxpayer qualifies for the NE incentive credits under the Employment Expansion and Investment Incentive Act (LB270, as amended by NE Laws 2003, LB 608). Effective 1/1/2004, taxpayers have to be involved in a qualifying business activity located in a county of less than 25,000 inhabitants or in a designated enterprise zone to be eligible to participate. The required levels for earning credits are \$250,000 in qualified investment and five new full-time equivalent, NE resident employees earning the minimum required wage. For applications filed in 2004, the minimum required wage is \$8.25 per hour. The taxpayer must attain the required levels for earning credits by the end of the tax year after the year of application. Taxpayers earn \$2,750 in investment credit for each \$50,000 net gain in qualified property and \$3,000 employment credit for each new full-time equivalent employee. The credits are refundable to a taxpayer filing a NE income tax return. The taxpayer may also use the credits to pay their NE unitary income tax liability, for a refund of state sales taxes and use taxes paid on investment, or the credits may be distributed to the owners of a pass through entity in the same manner as income is distributed. The credits are reported on Form 3800N.
3. Determine whether the taxpayer qualifies for the NE incentive credits under the Employment and Investment Growth Act (LB 775). In general, a qualifying business must file an application and invest \$3,000,000 in qualifying assets and hire at least 30 employees over a seven-year period.
4. Consider claiming fuel tax credits and community development act credits.
5. NE NOLs may be carried forward for 5 years. NE law does not provide for the carry back of NOLs.
6. If there are no non-NE shareholders for an S corporation and all income is from NE sources, the Form 1120SN does not need to be filed with the NE Department of Revenue. Thus, only the federal return needs to be filed in that instance.
7. Withholding, at the maximum individual income tax rate, is required for an S corporation if there is no Form 12N received by the corporation from a nonresident shareholder.
8. In doing the calculation of investment credit on Form 3800N for companies that are renting real estate properties rather than owning them, rent expense is capitalized by taking the rent expense paid in the last month of the year times 12 (to arrive at the annualized years’ rent expense) and then multiplying that amount by 8 (to arrive at the capitalized amount).
9. If a company has filed the Form 3800N to claim investment and/or employment credits in prior years, the form also needs to be filed the next two years because part of the tax will be subject to recapture if investment and employment levels are not maintained.
10. Taxpayers must add back 85% of any bonus depreciation taken as a result of the JCWAA Act of 2002. However, taxpayers may be able to recoup some of the depreciation deduction in 2005. A similar rule applies to the new 50% bonus depreciation allowed under the federal JGTRRA of 2003. 100% of § 179 depreciation in excess of \$25,000 also is required to be added back for tax years 2003 and after. These two addbacks can be recouped beginning in tax year 2006 (20% in tax year 2006 and 20% for each of the following 4 tax years).

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

NEVADA

1. Nevada does not impose a corporate income tax.
2. Effective 7/22/2003, all businesses required to be registered to do business in NV must obtain a State Business License and pay an annual \$100 Business License Fee. Businesses required to have a State Business License must also be registered for Use Tax. Business entities that are not included under this requirement include government entities and nonprofits that qualify under § 501(c), or business entities whose primary purpose is to create or produce motion pictures.
3. Effective 10/2/2003, all employers, other than financial institutions are now subject to 0.7% payroll tax, net of health insurance costs. All financial institutions are now subject to a 2% tax on payroll, net of health insurance costs. The definition of “financial institutions” is quite broad, and includes banks, brokerages, trust companies, credit card transaction processors, and others engaged in the financial services industry. Credit unions are specifically excluded.

NEW HAMPSHIRE

1. NH imposes a Business Enterprise tax of 0.75% on the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business enterprise after special adjustments and apportionment.
2. The Business Enterprise tax is generally imposed on any profit or nonprofit enterprise or organization, whether corporation, partnership, LLC, proprietorship, association, trust, business trust, real estate trust, or other form of organization. Qualified investment companies, and organizations exempt from federal tax under § 501(c)(3) are generally exempt from the enterprise tax. There are also special provisions regarding grantor trusts as defined under § 671.
3. NH imposes a Business Profits tax of 8.5% on taxable business profits. The rate had increased from 8.0% effective for years ending on or after 7/1/2001.
4. The Business Profits tax is generally imposed on any enterprise whether corporation, partnership LLC, association, business trust, real estate trust, or other form of organization.
5. The credit against the Business Profits tax is available for Business Enterprise taxes paid. Taxpayers may carry forward such unused credits for five taxable periods.
6. NOLs are apportioned in the year in which they are incurred, and may be carried forward for up to 10 years for losses incurred in a period ending on or after 7/1/1997. NOL deductions may only be taken against gross business profits before apportionment. In other words, NH allows a carryforward of an apportioned loss only to offset pre-apportioned income. The NOL is determined under § 172 as in effect on 12/31/1996. Therefore, the NOL must be reduced by the amount that was carried back for federal purposes provided the taxpayer had not made a § 172(b)(3)(C) election. This reduction is required even though NH does not allow an NOL deduction in carryback years. However, for tax years beginning before 7/1/2005, the NOL must be reduced by the amount that could have been carried back for federal purposes even if the taxpayer had made a § 172(b)(3)(C) election to forgo the carryback for federal purposes.
7. The amount of NOL generated in a tax year that may be carried forward is limited as follows:
 - \$250,000 for taxable periods ending on or before 6/30/2003,
 - \$500,000 for taxable periods ending on or after 7/1/2003 and on or before 6/30/2004,
 - \$750,000 for taxable periods ending on or after 7/1/2004 and on or before 6/30/2005,
 - \$1,000,000 for taxable periods ending on or after 7/1/2005.
8. Business organizations not otherwise permitted a federal NOL deduction may compute an NOL deduction as if the entity was a C corporation.
9. All domestic and foreign corporations and LLCs authorized or registered to transact business in NH (except corporations or LLCs making returns to the insurance commissioner) are required to file an annual report with the secretary of state with a \$100 filing fee.
10. Single member LLCs must file for DP 200 to receive a separate DOR number that is required in order to process the single member LLCs tax related documents.
11. NH makes reference to the IRC as in effect on 12/31/2000. Therefore, NH does not conform to any changes in the IRC after such date. For example, NH does not adopt the bonus depreciation or the § 179 expense authorized under the provisions of the federal JCWAA of 2002.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

NEW JERSEY

1. Consider the proper filing of Schedule N on an annual basis for foreign corporations seeking immunity from income taxation pursuant to PL 86-272, which requires payment of the greater of the alternative minimum assessment (AMA) or a minimum tax. The minimum tax is currently \$500 or \$2,000 for certain taxpayers that are members of affiliated groups.
2. Consider making an election to be treated as a NJ S Corporation before the 16th day of the 4th month of the 1st taxable year the election is to take effect by filing Form CBT 2553. This election is generally irrevocable after the initial year unless federal S corporation status is changed.
3. Changes or corrections to taxable income made by the IRS should be reported to NJ within 90 days.
4. For tax years beginning on or after 1/1/2003 a taxpayer with gross receipts of \$50 million or more for the prior privilege period must pay 25% of its estimated tax by the 15th day of the 4th month of the tax year, 50% of its estimated tax by the 15th day of the 6th month, and the balance by the 15th day of the 12th month.
5. For periods beginning during calendar year 2004 and calendar year 2005 a limited NOL deduction is allowed for the period. The deduction permits a reduction of entire net income by up to 50%. To the extent that any NOL is disallowed by reason of this limiting provision, the date on which the disallowed deduction would otherwise expire is extended by a period equal to the period of disallowance.
6. Taxpayers are not permitted to deduct an NOL for 2002 or 2003 unless it was purchased from a High Technology Company through the Technology Unused Benefit Transfer Program. Also, NJ prohibits the carryover of pre-merger losses to a surviving corporation following a merger unless the surviving corporation is the entity that generated the loss.
7. See N.J.A.C. 18: 7-8.10 for rules regarding sourcing receipts from services. Please note the proposed amendments to this regulation regarding asset management services.
8. Taxpayers claiming to have non-operational activity, non-operational assets, or non-unity partnership investments, must obtain and complete Schedule O. For years beginning on or after 1/1/2002 non-operational income earned by corporations headquartered in NJ is fully taxable by NJ.
9. Corporate partners or members of LLCs that are treated as partnerships must fully complete Schedule P-1. A partnership is required to withhold tax on behalf of its non-resident corporate partners. If tax was paid on behalf of the taxpayer by partnership entities, such payment should be reflected on Schedule P-1.
10. A taxpayer must maintain a regular place of business outside NJ with one or more regular employees in attendance in order to apportion its state taxable income. For tax years beginning on or after 1/1/2002, NJ has a throwout rule, where receipts source to jurisdictions where the taxpayer is not subject to tax are excluded from the receipts fraction denominator.
11. Eligible corporations may qualify for credits under the Research Credit, Manufacturing Equipment and Employment Investment Tax Credit and/or New Jobs Investment Tax Credit.
12. Effective for tax years beginning on or after 1/1/1999, the High Technology Emerging Technology Business Tax Certificate Transfer Program permits certain new and expanding technology corporations to sell their unused NOLs and research and development tax credits to any other corporation.
13. For property placed in service on and after 1/1/2004, NJ law decouples the federal ceiling allowable under § 179, from the amount permitted to be deducted as an expense for NJ corporation business tax (CBT) purposes. Returns for reporting periods ending after 12/31/2003 are affected, for property that has been placed in service on or after 1/1/2004. The decoupling limits the amount that may be deducted for CBT purposes to the amount of the deduction allowed under the IRC that was in effect on 12/31/2002. This amount is \$25,000. With regard to federal bonus depreciation, NJ law also clarifies that property placed in service after 9/10/2001 will not receive the bonus depreciation treatment. A recent law includes a technical correction that will maintain the limitation on and after 9/11/2004.
14. NJ disallows deductions for interest and intangible expenses paid to a related member unless certain exceptions apply. To claim an exception to the disallowance, taxpayers must fully complete Schedule G-2.
15. Effective for privilege periods beginning on or after 1/1/2002, all NJ taxpayers must compute an AMA. Taxpayers elect to use either the gross profit method or the gross receipts method. Once a method is elected, this election is in effect for the initial 5 privilege periods following the election. A taxpayer pays the higher of the CBT or AMA. Corporations exempt from corporation income taxation pursuant to P.L. 86-272 based upon mere solicitation activities in NJ would be subject to the higher of the minimum tax or the AMA.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

NEW MEXICO

1. Consider the correct filing method (e.g., taxpayers often select federal consolidated for ease of filing, without realizing that a change in method requires prior approval or that they may file under a different method).
2. Consider whether income is business income and therefore apportionable or non-business income and therefore allocable.
3. The statutory definition of apportionable business income in NM's version of UDITPA has expanded the scope of income that is apportionable under NM law. Now included is income from the disposition or liquidation of a business or a segment of a business, without qualification.
4. NM's elective UDITPA double-weighted apportionment sales factor for manufacturing businesses has been extended through 12/31/2010.
5. Consider the subtraction of expenses from allocated income.
6. Review NOL limitations because the requirements are not the same as for federal NOL.
7. Beginning with the 1999 tax year, NM requires pass-through entities to file a NM income and information return for pass-through entities (Form PTE) and withhold and pay NM income tax for its nonresident owners.
8. NM conforms to the bonus depreciation of the federal JCWAA of 2002 and the changes made under the federal JGTRRA of 2003. However, NM does not conform to the NOL provisions of the Act.
9. Changes were enacted to the Investment Credit Act in 2003 that reduce the employment requirement for years through 6/30/2011. Taxpayers now must only employ one full time equivalent employee for every \$500,000 of qualified equipment up to a value of \$30 million.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

NEW YORK

1. New York State and City ("NYS/C") disallow interest and other expenses related to subsidiary capital. Disallowed expenses are calculated under both a direct and an indirect approach; while the direct approach may be more difficult to determine, it can result in greater tax savings. See TSB-M-95(2)C.
2. NYS/C allows a 100% deduction for dividends, interest and gains received from subsidiaries (50% or more of voting stock test) and a 50% deduction for dividends received from non-subsidiary corporations. Article 9A corporations may exclude from subsidiary capital a portion of the value of their investment in the stock of, or any indebtedness from, subsidiaries subject to bank tax or insurance tax.
3. When two corporations have 80% common ownership and unitary business, it will be presumed they should file on a combined basis for NYS/C purposes when 50% or more of receipts are from inter-corporate transactions (distortion of income test). The presumption can be rebutted by showing that the transactions are priced at arms length.
4. Consider special NOL rules: (1) NYS/C NOLs cannot exceed federal NOLs, (2) a non-combined filer computes NOLs on a hypothetical separate company federal basis, (3) NYS/C NOL carryback is limited to first \$10,000.
5. NYS S corporations are subject to a tax that is the lower of: 1) the fixed dollar minimum tax, or 2) a corporate tax on entire net income reduced by the Article 22 equivalent. The NY S corporation differential tax rate drops from .975% to .825% for tax years beginning after 6/30/2000, and .65 % for tax years beginning after 6/30/2001. The rate for small businesses with net income of \$200,000 or less drops from .125% to .05% for all tax years beginning after 6/30/1999. NYC does not recognize S corporations, which are required to file NYC general corporation tax return. Note that for the tax years 2003-2005, the highest personal income tax rate (7.7%) will actually exceed the corporate tax rate (7.5%). The S corporation tax will be the minimum tax.
6. NYS parent and Qualified Subchapter S Subsidiary ("QSSS") may file single NYS return; non-NYS parent must make election to file single return with QSSS or QSSS must file separate NYS return. See Pub. 35. Because NYC does not recognize an S election, a QSSS cannot file a single NYC return with its parent.
7. Business income and capital are apportioned using the three-factor formula, with double-weighted receipts for NYS purposes; NYC does not double weight receipts except for manufacturing companies. Investment income and capital and subsidiary capital are apportioned based on issuer's allocation percentage.
8. The corporate franchise tax rate imposed on large corporations will drop by .5% per year for tax years beginning after 6/30/1999, through 6/30/2001. For tax years beginning after 6/30/2001, the rate for all corporations is equalized at 7.5%.
9. NYS/NYC conform to NOL provisions of the federal JCWAA of 2002, but limit carrybacks to \$10,000 per year. For tax years beginning on or after 2002, applicable to property placed in service after 6/1/2003, NYS decouples from bonus depreciation, except with respect to qualified Resurgence Zone property and qualified NY Liberty Zone property. In its place, NYS allows taxpayers to compute depreciation under § 167. NYC does not conform to the federal bonus depreciation provisions for property placed in service after 9/10/2001, except with respect to qualified Resurgence Zone property and qualified NY Liberty Zone property.
10. NYS/NYC requires taxpayers to add back royalty payments and interest payments made to a related entity during the tax year, to the extent deducted in calculating federal taxable income. The addition is not required if: (i) the related member during the same taxable year directly or indirectly paid or incurred the amount to a person or entity that is not a related member, and such transaction was done for a valid business purpose and the payments are made at arm's length; or (ii) the royalty payments are paid or incurred to a related member organized under the laws of a country other than the United States, are subject to a comprehensive income tax treaty between such country and the United States, and are taxed in such country at a tax rate at least equal to that imposed by New York. Applicable to taxable years beginning after 2002, NYS/NYC allow a taxpayer to deduct royalty payments received from a related member during the taxable year, to the extent included in the taxpayer's federal taxable income, unless the royalty payments are not required to be added back under the expense disallowance provisions.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

NORTH CAROLINA

1. Corporations are eligible for a franchise/income tax credit for investment in machinery in distressed counties, creation of new jobs in distressed counties, worker training expenditures, or research and development expenditures.
2. NC does not have a throwback rule for multi-state corporations.
3. NC determines the business/non-business character of income through the utilization of a transactional test and a functional test. A technical change was made to replace the term “business” with the term “apportionable” when referring to “business income” and the term “nonbusiness” with the term “nonapportionable” when referring to “nonbusiness income” effective 8/14/2003.
4. NC does not allow a taxpayer to carryback a NOL, only carryforward. Also, the loss must be an economic loss, not a NOL. NC has extended the net economic loss carry forward period from 5 to 15 years. The change is effective for tax years beginning on or after 1/1/1999, and applicable for losses incurred for tax years beginning on or after 1/1/1993.
5. NC requires the deduction of a capital loss in the year incurred without regard to the timing of the federal tax treatment of the capital loss.
6. Effective 1/1/2001, NC allows the same deduction permitted under federal law for dividends that a corporation receives from corporations in which it owns more than 50% of the outstanding voting stock.
7. NC did not adopt the federal treatment of depreciation under the JCWAA of 2002 and the JGTRRA of 2003. An addition to federal taxable income is required on the 2001 and 2002 state returns for 100% of the amount of bonus depreciation deducted on the federal returns. For 2003 and 2003, corporations are required to add to federal taxable income an amount equal to 70% of the additional first-year depreciation deducted on the federal return. Any amount of additional first-year depreciation added to federal tax income on the NC returns may be deducted in five equal installments starting with the 2005 return.
8. NC adopted the increased § 179 deduction threshold under the JGTRRA of 2003. The deduction is increased to \$100,000 and the phase-out starts at a total investment of \$400,000.
9. The credit for manufacturing cigarettes for exportation was amended to extend the sunset of the credit to cigarettes exported on or after 1/1/2018. A new credit was added for manufacturing cigarettes for exportation while increasing employment and utilizing state ports effective for taxable years beginning on or after 1/1/2006, and expires for exports occurring on or after 1/1/2018.

NORTH DAKOTA

1. A deduction calculated on Schedule FTD is allowed for federal taxes. This deduction is repealed for tax years beginning after 12/31/2003.
2. Tax credits are allowed for contributions to nonprofit private colleges and high schools located in ND.
3. An exemption is available for new and expanding businesses from the State Board of Equalization.
4. Various tax credits are allowed and are computed on Schedule TC.
5. A corporation may elect on an original return to forego the carryback period of a NOL. For ND NOLs incurred for tax years beginning after 12/31/2002, no carryback of unused loss is allowed.
6. An exemption and various credits are available for companies located in Renaissance Zones and are calculated on Schedule RZ.
7. ND is a worldwide combination state. However, taxpayers are allowed to make a “water’s edge” election. For tax years beginning after 12/31/2003, a corporation that elects to use the “water’s edge” election must pay a surtax of 3.5% in addition to the regular tax. Note that the regular tax rates were changed for tax years beginning after 12/31/2003. The revised rates range from 2.6% on the first \$3,000 to 7% over \$30,000.
8. ND conforms to the bonus depreciation and NOL provisions of the federal JCWAA of 2002, and the federal JGTRRA of 2003.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

OHIO

1. OH does not have any provisions for consolidated returns. Combined returns can be filed for just the net income tax. Any member included in the combined return must have income tax nexus with the state, must timely elect to be included in the return, must be considered to be part of a related group with 50% common control and ownership. It will be difficult to break the combined filing without significant changes in the factual situation. Taxpayers that do not qualify may request permission to file combined returns.
2. Prior to legislation signed 6-26-2003 the OH statutes did not define "business income" and OH law made different types of income allocable and other types apportionable, regardless of the relation of the income to the business. Under House Bill 95, signed by the governor on 6/26/2003, OH adopts the UDITPA definition of "business income" as including income from sources in the regular course of a trade or business, including gain or loss from a partial or complete liquidation of a business, including its goodwill. "Non-business income" is defined as all income other than business income. Non-business income is sourced to OH under the modified allocation and apportionment rules of R.C. 5733.051(A) through (I). Various significant modifications to OH's allocation statutes are contained in the bill. There is a default provision for non-business income not otherwise subject to specific allocation rules that will be treated as allocable to OH, except to the extent that allocation would violate the U.S. Constitution. In the latter case, such non-business income would be apportionable. This change in OH law is effective for franchise tax year 2004, and will be retroactively applied in the case of calendar taxable years beginning 1/1/2003. The state's position at this point is that taxpayers whose fiscal year ended prior to the enactment date (6/26/2003) will file their 2004 franchise tax reports with allocation and apportionment based on the old law. Taxpayers with years ending after the enactment date will file their 2004 report based on the new law.
3. For tax years beginning after 1998, the formula used to compute net worth is property, payroll, and sales factors of 20%, 20% and 60%, respectively. The apportionment formula formerly used only property and business done to determine the portion of net worth attributable to OH. House Bill 95 (enacted 6/26/2003) modifies the net worth apportionment factor (which uses the income tax apportionment factor as the starting point) to include any real and tangible personal property, payroll and sales, respectively, relating to, or used in connection with the production of, net non-business income allocated under § 5733.051 of the Revised Code.
4. For tax years after 1998, the net worth basis of the franchise tax is equal to the total value (as shown on the books of any taxpayer that is not a qualified holding company) of the net book value of a taxpayer's assets less the net carrying value of its liabilities.
5. There are no estimated payments required in OH. Tax is remitted first by 1/31, 3/31 and 5/31. Extended return is due either on 5/31 or one month past the extended federal return due date. There is no short period return in OH. Franchise tax reports must be filed and the tax paid annually between 1/1 and 3/31. If the franchise tax report is not filed, and the tax is not paid in January of tax year, Form FT-1120E, Declaration of Estimated Corporation Franchise Tax, must be filed, and one-third of the estimated tax must be paid by 1/31. If the estimated tax is not in excess of the minimum tax, the entire amount must be paid by 1/31. House Bill 95 increases the minimum corporation franchise tax from \$50 to \$1,000 for corporations with gross receipts in excess of \$5 million annually or corporations having more than 300 employees worldwide.
6. Adjustments to the net income tax base may be required in cases where royalty, interest and other intangible expenses are deductible on a taxpayer's OH return when the payee is not incurring a tax liability for the corresponding income.
7. OH allows for varying deductions depending on the nature of the foreign income. Income under IRC §§ 78 and 951 is 100% deductible. Foreign source dividends are 100% deductible. Foreign source royalties and technical assistance fees are 90% deductible. All other foreign source income is 85% deductible.
8. When a taxpayer is reorganizing its group of affiliates, an adjustment to the net income tax may be required to the extent income is earned within the tax year prior to the reorganization by a corporation no longer considered to be conducting business operations on 1/1 of the tax year. Entities merged out of existence 1/1 may owe an exit tax or a related party may have to absorb their income and apportionment factors.
9. Financial institutions compute the annual excise tax on the net worth basis only.
10. A domestic corporation that dissolves or a foreign corporation, that withdraws or retires from business in OH on or after 1/1, must file a franchise tax report with the Tax Commissioner and pay or secure the tax due for the year in which the dissolution or withdrawal occurs.
11. The manufacturer's investment credit must be calculated on a consolidated basis for controlled groups whether or not they file a consolidated federal return or combined OH return.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

12. Q-Subs and single member LLCs become subject to the pass-through entity tax beginning in 2002.
13. The OH NOL carryforward period has been increased to 20 years. There is no carryback provision.
14. OH does not conform to the federal NOL provision of the JCWAA of 2002. SB261 was signed by the Governor on 6/5/2002, decoupling the OH business tax from federal law. Under the bill, corporate taxpayers are required to add back 5/6 of the bonus depreciation deducted on federal income tax returns. The amount added back may be depreciated ratably over a 5 year period (1/6 each year). SB261 is effective for taxable years ended on or after 6/5/2002. OH has recently issued an information release indicating that taxpayers with taxable years ending prior to 6/5/2002 will not be able to claim the bonus depreciation. An additional provision has been added to disallow the expanded § 179 deduction, 5/6 of which must be added back to income and deducted over the subsequent 5 years; similar to the bonus depreciation adjustment. OH does not allow the \$100,000 expense deduction allowed under JGTRRA of 2003.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

OKLAHOMA

1. If a federal consolidated return is filed, an OK consolidated return may be required or permitted under certain circumstances. An election to file a separate or consolidated return is made with the timely filing of the return. If an affiliated group of corporation elects to file an OK consolidated return, that election is binding and cannot be revoked unless permission is received by the OK Tax Commission. In filing a consolidated OK return, the OK taxable income for each corporation is computed separately on its own factors and then combined for one total income upon which the tax is computed. The three-factor formula is applied to each corporation in a consolidated group.
2. Taxes based on or measured by income are added back in determining net apportionable income. Accrued OK income tax is allowed as a deduction from OK apportioned income to arrive at OK taxable income.
3. There is no 65% limitation for OK oil and gas depletion deduction as there is for federal purposes. If OK options are exercised the federal depletion not used due to the 65% limit may not be carried over.
4. The OK depletion rate is 22%. OK allows a 22% oil and gas depletion allowance that is also applicable to lease bonuses. Depletion for major oil companies is limited to 50% of taxable income from an oil and gas property.
5. An officer's compensation is not included in t in determining the payroll factor in OK.
6. All corporations operating in OK must file an annual franchise tax report due between 7/1 and 8/31, or they may elect to file on or before the date on which the income tax return is due. To elect to change the due date to the date on which the income tax return is due, the taxpayer must file form 200F by 8/31 of the preceding tax year. If the taxpayer chooses to file when the income tax return is due, any extension granted for the income tax return covers the franchise tax return.
7. OK Sales Factor does not allow receipts from items other than sales to be included in the formula even though other types of income (royalties, interest, capital gains, and other income) are included in the apportioned income. For purposes of the sales factor, "sales" does not include sales or gross revenue that are separately allocated. Sales of tangible personal property have a situs in OK if the property is delivered or shipped to a purchaser within OK, other than the U.S. government, regardless of f.o.b. point or other conditions of sale. If a taxpayer is not doing business in the destination state of the shipment, then those sales of tangible personal property are considered to have a situs in OK if the property is shipped from an office, warehouse, factory, or other place of storage in OK. OK law does not contain a provision comparable to Sec. 17 of UDITPA, which establishes the income-producing activity test for purposes of the sales factor numerator, for income other than from sales of tangible personal property. Since capital gains, dividends, etc., are often allocated under OK law, the lack of an alternative to the "destination test" is to be expected; however, there is apparently no OK numerator test for service income, interest or accounts receivable, and other income types which are apportionable income. The Tax Commission's position is that for most corporations, other than financial organizations or others whose sales do not represent a principal activity, the denominator of the sales factor includes only sales as reported on line 1 of federal Form 1120. The numerator includes only sales reported on Form 1120, line 1, attributable to OK.
8. OK allows special business incentives in the form of tax credits and/or accelerated deductions.
9. All nonresident stockholders of an OK S corporation must execute a consent agreement whereby they agree to pay OK income tax on their share of the S corporation income. An S corporation is taxable at the rate of 6% on that part of its net income allocable to each nonresident shareholder for whom the corporation does not file an agreement (OK Form 512-SA) by which the shareholder agrees to file an OK income tax return reporting the shareholder's share of the corporation's income. There is no OK provision that authorizes S corporations to file composite returns on behalf of their nonresident shareholders, unlike partnerships that have a composite return filing option.
10. For tax years beginning after 2000, the years to which NOLs may be carried forward or back are determined solely by reference to § 172.
11. In general, OK follows federal law with respect to depreciation, because federal taxable income is the starting point for determining OK taxable income. However, for income tax returns filed after 9/10/2001, corporations and fiduciaries must add back to federal taxable income 80% of the amount of any "bonus" depreciation received under the federal JCWAA of 2002 for assets placed in service after 9/10/2001 and prior to 9/11/2004. The amount of bonus depreciation described above is subtracted in later taxable years. 25% of the total amount added back is subtracted in the taxable year following the year of addition, and 25% is subtracted in each of the three succeeding taxable years. No add-back is required on OK returns for the amount of the federal 50% "bonus" depreciation deduction that is allowed under the federal JGTRRA of 2003 for assets purchased from 5/6/2003 through 12/31/2004. This does not apply to S corporations, which follow federal treatment.

**UNIQUE CONSIDERATIONS FOR STATE
CORPORATION TAX RETURNS**

12. Pass-through entities are required to have backup withholding of 5% of distributions on non-resident shareholders, partners, beneficiaries, or LLC members for distributions.. For distributions after 6/30/04, the non-resident owner may avoid withholding by submitting an affidavit on OTC Form OW-15 to the pass-through entity.
13. Presumably allows the extraterritorial income exclusion since the starting point for OK net income is federal taxable income after the net operating loss and special deductions.
14. OK allows a deduction for wages added back to federal taxable income due to the Indian Employment Credit only. No such provision exists for wages disallowed on the federal return due to any other federal employment credit.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

OREGON

1. Consider the unitary versus separate filing issues, including the treatment of passive holding companies in the unitary group (the state has been reluctant to allow inclusion).
2. Complete both methods of calculating the OR R&E credit. The alternative method may result in higher credit.
3. Complete both methods of calculating the OR R&E credit even when the taxpayer is in an NOL position because a carryover provision exists.
4. Review how OR defines receipts for apportionment purposes and how it specifically addresses the throwback rule. Under statutory provisions enacted in 1999, taxpayers may petition for, or the department may require, the use of an alternative apportionment formula if the standard apportionment formula does not fairly represent the extent of the taxpayer's business activity in the state. As amended, the statute no longer requires taxpayers to show that the standard formula violated their rights under the federal or state constitutions as a prerequisite for requesting an alternative apportionment formula.
5. An out-of-state company may also be required to file the Portland/Multnomah County Business License Return.
6. Starting in 1999, net gains from sales, exchanges, or redemptions of intangible assets that are not derived from a taxpayer's primary business activity are included in the sales factor if gains are business income.
7. OR conforms to the bonus depreciation provisions of the federal JCWAA of 2002 and JGTRRA of 2003. OR does not conform to the NOL provisions of the Act.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

PENNSYLVANIA

1. Determine if the most advantageous apportionment method is chosen in determining the Capital Stock/Franchise (CS/F) Tax and Corporate Net Income (CNI) Tax, as several methods exist.
2. Determine if separate returns were filed for each entity (PA does not allow consolidated tax reporting).
3. PA requires the payment of quarterly estimates for both the CS/F Tax as well as the CNI Tax. Determine if all quarterly estimated tax payments have been claimed. Payments of \$20,000 or more must be done by EFT.
4. PA S corporations, partnerships and individuals are allowed to deduct meal and entertainment expenses at 100% for personal income tax only.
5. Determine if dividend income was included in the average income when computing the CS/F tax.
6. Determine if the amounts used on the RCT-101, Sec. A agree with the amounts on the Federal 1120, Schedule L and M-1 (which need to be attached). If not, include sub-schedules to reconcile any differences.
7. Determine if the CS/F Tax is properly prorated for short tax years.
8. CS/F Tax - Determine if book income amounts excluded equity in subs and included dividends from subsidiaries.
9. CS/F Tax - Determine if the manufacturing exemption was properly taken or calculated. When calculating capital stock value, a company may exclude all property and payroll attributable to manufacturing, processing, research, or development activities from the numerators of its property and payroll factors. This provision is commonly known as the manufacturing exemption.
10. CNI Tax - Determine if NOL deductions were properly taken. The federal net operating loss deduction authorized by IRC § 172 is not allowed in PA. However, a net loss deduction is available. For tax years after 1998, the net loss deduction is the lesser of: \$2 million, the amount of a net loss or losses that may be carried over to a taxable year, or taxable income. For tax years after 1997, PA net losses may be carried forward for 20 years. *Separating noncapital losses*. Do not confuse the PA term "net loss" with the federal term "net operating loss." PA net loss carryover rules do not apply to capital losses. They apply only to business and nonbusiness losses arising from the operation of a trade or business. Be sure to keep your nonbusiness capital losses separate, because nonbusiness losses retain their nonbusiness character in the year to which they are carried over. Be especially careful about capital losses if you participate in the filing of a federal consolidated tax return. You cannot carry over the consolidated capital losses on your separate PA return.
11. PA has a Corporate Loans Tax that is imposed on corporate obligations owned by individual residents and/or resident partnerships in PA and on which interest was paid. Out-of-state corporations are only liable for this tax if they have business in PA and have a PA resident treasurer or other comparable officer.
12. LLCs are subject to the CS/F Tax if classified as a corporation, partnership, or disregarded entity for federal purposes. *Corporation Tax Opinion: Subjectivity of Limited Liability Companies*, PA Department of Revenue, 2/2/2000. However, an LLC is only subject to CNI Tax if it is classified as a corporation for federal purposes.
13. There is a phase-out of the CS/F Tax by 2009. For tax years beginning after 1999 the rate is slowly being reduced and the \$200 minimum tax is repealed.
14. A separate PA S election is required. In addition, § 179 enhanced expense election because of the JGTRRA of 2003 is not available for flow through entities like S corporations and partnerships. The § 179 expense election is limited to \$25,000. For C corporations the enhanced expense election is available.
15. Consolidated net worth is required to be used by every parent, including tier parents in calculating the franchise tax.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

16. The PA Department of Revenue has announced its policy for calculation of book income for corporate members of limited liability companies (LLCs) for purposes of the PA capital stock and franchise taxes. Income from a LLC will be included in the net income per books of the corporate member in the year the income is distributed. Nondistribution income or loss from the LLC will not be recognized in calculating net income per books. The corporate member must provide certain information to make the adjustment or the Department will assume that all income from the LLC was distributed in the year it was reported in net income per books on the federal return. PA Tax update No. 109, PA Department of Revenue April/May 2004.
17. Legislation enacted on 6/28/2002 decouples PA from the federal 30% bonus depreciation for tax years beginning after 9/11/2000, or the 50% bonus depreciation deduction enacted by the JGTRRA of 2003. Also, only straight-line depreciation is permitted on real property. Taxpayers must add back any federal bonus depreciation to PA taxable income. The taxpayer may then deduct an additional 3/7 of the federal depreciation deducted (not including the federal bonus depreciation) to adjust for the add-back. For qualified property that is sold or otherwise disposed of during a tax year and for which the bonus depreciation deduction was included in taxable income, an additional deduction is allowed to the extent the amount of depreciation claimed under § 168(k) has not been recovered through the additional 3/7 deduction. Required forms for purposes of calculating the adjustment are available on the PA department's website.
18. PA allows the extraterritorial income exclusion.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

RHODE ISLAND

1. S corporations are subject to the corporate income tax to the extent that their income is subject to federal tax. S corporations are subject to the RI franchise tax (minimum \$250). If an S corporation has a nonresident shareholder, either Form RI-1120-SN must be filed (attached to the S corporation's RI return), or the S corporation will be required to remit tax on behalf of the nonresident shareholder.
2. RI does not have a throwback rule, which creates the possibility of "nowhere" sales for purposes of the sales factor.
3. RI does not conform to the federal bonus depreciation provisions of the federal JCWAA of 2002 or JGTRRA of 2003. RI does not conform to the NOL provisions of the Act.
4. An affiliated group of corporations may file a consolidated RI return for the taxable year in lieu of separate returns, provided that each member corporation included in the return: (1) consents to the filing of a state consolidated return; (2) is not a FSC, DISC, S corporation, or corporation engaged in buying, selling, dealing in, or holding securities on its own behalf; (3) is subject to the state tax; (4) has the same fiscal period; and (5) was affiliated at any time during the taxable year. The electing group must file with the return separate income statements, balance sheets, and apportionment schedules for each included corporation.
5. For tax years beginning on or after 1/1/2004, qualified manufacturers gradually will move toward using a double-weighted sales factor. For tax year 2004, the formula will be 30% property, 30% payroll, and 40% sales. For tax year 2005 and on, the formula will be 25% property, 25% payroll, and 50% sales.
6. For purposes of the definition of "base employment" within the Jobs Development Act, (which provides a reduced rate of tax applicable to companies that create new employment opportunities in RI), an eligible company may elect to determine its base employment on July 1 of any year after 1994, rather than 7/1/1994. An eligible company cannot use 7/1/2003 or any subsequent year without a determination from the Board of Directors of the RI Economic Development Corporation.

SOUTH CAROLINA

1. Review state law concerning filing consolidated or separate returns.
2. A consolidated return must include the calculation of a separate license fee for the parent and each subsidiary. A separate annual report and profit and loss statement are also required using each member's own apportionment ratio.
3. The threshold level for EFT has been changed to \$15,000.
4. A NOL deduction is permitted and is calculated the same as federal tax purposes, except that all items of income and deductions used in arriving at the NOL are adjusted for SC purposes. Also, carrybacks are not allowed for SC purposes, and a federal election to carryback an NOL deduction will not affect the computation of the deduction for SC income tax purposes. Finally, a NOL is subject to allocation and apportionment in the year the loss is incurred.
5. An SC S corporation is required to withhold income taxes at a rate of 5% on each nonresident shareholder's share of the corporation's SC taxable income, whether or not distributed. The return and payment of the withheld funds is due on or before the fifteenth day of the third month following the close of the tax year.
6. SC has not adopted the IRC provisions for computing the additional depreciation deduction provided under the JCWAA of 2002 or JGTRRA of 2003. As such taxpayers will have to make a separate computation for SC depreciation. The adjustments are reported on Schedules A and B of the return.
7. A new collection assistance fee of 20% of the amount of the overdue tax may be imposed on an overdue tax debt, effective for all debts incurred before 12/01/2002, that were outstanding as of 12/1/2002 or incurred after 12/1/2002.
8. SC sales to the US government and the state of SC may be excluded from the numerator of the sales apportionment calculation, but included in the denominator.

SOUTH DAKOTA

1. South Dakota does not impose a corporate income tax on general business corporations. However, an income tax is imposed on banks and financial institutions.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

TENNESSEE

1. TN allows the full amount of capital losses to be deducted in the year incurred. Any capital loss carryback or carryover allowed on the federal tax return must be added back to TN net income.
2. S corporations are taxed in the same manner as other corporations without regard to the special federal provisions.
3. Estimated franchise and excise tax payments are required if the combined liability for the year is over \$5,000.
4. TN does not allow an NOL carryback, but the NOL may be carried forward for up to 15 years.
5. Partnerships, for federal income tax purposes, wholly owned, directly or indirectly, by a real estate investment trust, will be exempt from the payment of the TN franchise tax.
6. A business entity will be classified for TN excise tax purposes as a corporation, partnership, or other type of business entity in accordance with its classification for federal income tax purposes. With the exception of LLCs whose single member is a corporation, entities that are disregarded for federal income tax purposes will not be disregarded for TN purposes.
7. The Tax Revision and Reform Act of 1999 expanded the application of the excise tax to include LLCs, LLPs, limited partnerships, and any other organization or entity engaged in business, with the exception of general partnerships and sole proprietorships.
8. TN has not adopted the IRC provisions for computing depreciation deductions under the JCWAA of 2002 or the JGTRRA of 2003. In addition, TN has not adopted the additional carryback period for a NOL.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

TEXAS

Regarding Corporate Franchise Tax and Taxable Capital:

1. Solicitation by independent representatives will create nexus and a filing obligation, unless the corporation is exempt.
2. Reserves such as inventory obsolescence, warranty reserves, reserves for lawsuits, write downs of assets, etc. must be included in surplus. To be excluded, the reserves must meet the definition of debt (time certain, sum certain, and contractual).
3. Investments in subsidiaries must be reported at their cost basis. Equity reporting is not allowed. Therefore, if the subsidiaries are kept on the books on the equity method of accounting, an adjustment will need to be made to deduct the corporation earnings and add back any dividends that have been adjusted in the records. Investments in partnerships and joint ventures are accounted for under the equity method (unlike corporations and LLCs, which must be included using the cost method).
4. Consolidated reporting is not allowed. Inter-company eliminations such as deferred inter-company profits are included in surplus as if the sale was made to an outside third party.
5. TX has a throwback rule; however, solicitation is enough in another state to not throwback the other states sales. There may be different percentages of TX business for the taxable capital and the earned surplus component of the franchise tax.
6. Dividends and interest on federal obligations are included in the gross receipts denominator only.
7. Dividends from affiliates are included in the gross receipts denominator and, if the payer is a TX corporation, in the gross receipts numerator. There is no dividend-received deduction for the taxable capital.

Regarding Earned Surplus:

8. P.L. 86-272 protects solicitation activities in TX for earned surplus nexus purposes. As a result, companies may have a different percentage of TX business for the taxable capital component and the earned surplus component of the franchise tax because of the different nexus standards applicable to the respective throwback rules.
9. Dividends and interest on federal obligations are not included in the earned surplus tax base or in the gross receipts denominator or numerator.
10. Except for some banks, officer and director compensation addback had included all officers or directors of the company. However, 34TAC § 3.558 requires an addback only for persons who hold an office (officers only, not directors) created by the board of directors or articles of organization AND have the legal authority to bind the corporation with third parties by executing contracts or other legal documents. Exemptions from this compensation addback are provided for S corporations and certain corporations with less than 36 shareholders.
11. Compensation includes all amounts includable in the officer/director's taxable income as reported on Forms W-2 and 1099. Officer and director compensation includes the stock options in the corporation held by officers and directors.
12. A business loss carryover created by a company that is a non-survivor of a merger does not carryforward to the survivor.
13. TX does not conform to the federal NOL and bonus depreciation provisions of the JCWAA of 2002. Additionally, TX does not conform to the 50% bonus depreciation deduction enacted by the JGTRRA of 2003.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

UTAH

1. The application of the \$1,000,000 limitation on NOL carryback to the taxpayer should be addressed. This limitation applies to all losses incurred in years beginning on or after 1/1/1994.
2. UT follows the Finnigan method for sales factor purposes (as opposed to the Joyce method).
3. UT now follows § 338(h)(10), including a one-day return to be filed when one is required by the IRS.
4. The application of the deduction for R&D expenses or other expenses which may have been reduced, due to claiming a federal tax credit should be addressed. The UT return is tied to the Federal Adjusted Gross Income (any changes made to this will affect the state return), and any change in a federal tax credit will not affect the state tax return.
5. UT requires a “water’s edge” combined return to be filed. The taxpayer can make a worldwide election. For non-unitary corporations, which have a parent sub relationship doing business in UT, can elect to file an elected combined return, which includes those corporations doing business in the state.
6. NOL carry back refunds are automatic in UT. The loss year tax return contains the election to carry the loss back for refund or to carry the loss forward. Where the taxpayer has elected to forego the federal loss carryback, a similar election is deemed to have been made for UT, unless that taxpayer makes a UT election to carry the loss back.
7. UT conforms to the bonus depreciation provisions of the federal JCWAA of 2002 and JGTRRA of 2003.
8. UT does not conform to the NOL provisions of the JCWAA of 2002.
9. Credit Authorization Forms are no longer required to be attached to the UT return (Copies must be retained). Nonrefundable credits include: Renewable Energy Systems Tax Credit, Enterprise Zone Credit, Credit for employers who hire persons with disabilities, credit for Increasing Research Activities, Credit for Machinery and Equipment used to conduct research. Refundable credits include: Mineral Production Withholding Credit, Credit for Agricultural Off-Highway Motor Fuel Tax, and the Targeted Business Income Tax Credit. The Clean Fuel Alternative Tax Credit expired 1/1/2003.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

VERMONT

1. S corporations are required to pay VT estimated tax payments, with respect to the income of its nonresident shareholders.
2. In calculating corporate taxable income, VT incorporates the federal NOL deduction, because VT starts with federal taxable income after the NOL is taken into account.
3. VT permits the filing of consolidated returns, but such returns only include corporations which have income allocated to VT (i.e., nexus consolidated return).
4. Domestic corporations and foreign corporations authorized to transact business in VT must file an annual report with the VT secretary of state, which is due 2 ½ months after the corporation's fiscal year.
5. If a taxpayer does not have a regular place of business outside VT during the taxable period it must allocate 100% of its income to VT.
6. Entities not filing federally as C corporations, including partnerships, S corporations, and LLCs, must file an annual entity level return (VT Business Income Tax Return).
7. S corporations are not subject to the VT tax on corporations, except to the extent of income taxable to such S corporations under the IRC.
8. Effective for returns for years ending 6/30/2000 or later, investment and holding companies qualified under 32 VSA § 5837 may be excluded from a VT consolidated return. Such excluded investment and holding companies must file separately and pay the minimum tax. For years beginning on or after 1/1/2006, this provision is repealed and, if appropriate, investment and holding companies may be included in a unitary combined return (see below).
9. VT does not conform to the federal bonus depreciation provisions of the federal JCWAA of 2002 or JGTRRA of 2003.
10. The VT sales factor includes a throwback rule.
11. Unitary combined reporting is adopted effective for tax years beginning 1/1/2006 and after. Members of an affiliated group that engage in a unitary business with one or more members of the unitary group are required to file using this combined method. The definition of "affiliated group" excludes corporations with 80% or more of property or payroll overseas and captive insurance companies. Accompanied with combined reporting is a decrease in the corporate income tax rates.
12. The current equal weighted apportionment formula has been modified to a double weighted sales factor for taxable years beginning on or after 1/1/2006.
13. The bank franchise tax limitation of taxing the lesser of federal taxable income or deposits is repealed for tax years 2004 and after. Therefore, no limit on bank franchise tax shall be available based on federal taxable income, as was previously allowed.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

VIRGINIA

1. VA allows three different filing options for corporations filing an income tax return: Separate, Combined, or Consolidated. Only those companies with nexus in VA are included in the Combined or Consolidated filing. A binding election to select one of these filing options is required to be made in the first year that more than one affiliated company is required to file in VA. Prior elections continue in effect and can be changed only with the tax commissioner's permission. Effective for applications filed on or after 7/1/2003, a group of affiliated corporations that has filed VA income tax return on the same basis for the preceding 20 years may be granted permission to change the basis of the type of return filed from consolidated to separate or from separate to combined to consolidated if certain conditions are met.
2. Affiliated companies that use different apportionment factors can be included in a VA combined or consolidated return.
3. Corporations filing on a combined or consolidated basis, or as a multi-state corporation, should refer to Title 23 VA Administrative Code 10-120-320 through 327 for additional modifications.
4. Virginia conforms to IRC as of 12/31/2003, except for bonus depreciation and NOL. An NOL, in general, can be carried back 2 years in VA. If the IRS allows carry-back for more than 2 years, VA does not conform.
5. There is no throwback rule for the VA sales factor.
6. VA law provides for the allocation of dividends regardless of whether it is considered business income.
7. Certain types of income (interest, dividends, rents and royalties, etc.) that are derived from sources outside the United States qualify for the Foreign Source Income Subtraction, which is computed net of related expenses.
8. Effective for tax years after 1999, the sales factor is double-weighted.
9. Effective 1/1/2001, any electric supplier, pipeline distribution company, gas utility or gas supplier that is subject to federal income tax also is subject to the VA corporation income tax.
10. No corporation may elect that a consolidation or combination of an affiliated group include any controlled foreign corporation, the income of which is derived from sources outside the United States (i.e., no worldwide consolidation or combination).

WASHINGTON

1. WA does not impose a corporate income tax. Businesses in WA are subject to a business and occupation tax (B&O tax) and/or public utility tax. These taxes are based on the gross income or proceeds of sales, or value of products for privilege of doing business, rates varying depending on business type-range 0.138 to 5.029%. Major rates: Retailing .471%; manufacturing/wholesaling .484%; services 1.5%.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

WEST VIRGINIA

1. WV does allow a federal affiliated group to elect to file a consolidated return. If no election is made, the commission may require a consolidated return. An election cannot be terminated without the commissioner's consent. Out-of-state financial organizations that are part of an affiliated group of corporations that file a consolidated federal return may elect to file consolidated WV BFT and CNIT returns. Combined returns may be filed with written approval which will only be allowed if failure to allow would result in unconstitutional distortion of taxable income.
2. WV uses a 3-factor apportionment formula (payroll, property and sales) with the sales factor double weighted. WV applies a throw-out rule for sales (both numerator and denominator) in states where the taxpayer is not taxable.
3. WV has a liberal definition of U.S. Government Obligations for form A-1 exclusions (includes agencies such as FNMA, GNMA, etc.).
4. WV generally conforms to the UDITPA definition of business and non-business income.
5. WV has a liberal foreign source income exclusion.
6. Partnership income is allocated in WV based on the partnership's apportionment percentage. The partnership's apportionment factors do not get included in the partner's WV apportionment factors.
7. WV does conform to the federal NOL and bonus depreciation provisions of the JCWAA of 2002 and the 50% bonus depreciation provision in the JGTRRA of 2003. S.B.1008 and 1009, signed into law by the WV Governor on 4/2/2002, adopt for WV corporate income tax purposes changes to federal law made after 2001 but before 3/15/2002, that affect the determination of federal corporate income tax.
8. Although WV does not tax an S corporation but taxes the distributive shares of the shareholders, WV does tax the S corporation on the distributive shares of non-resident shareholders.

UNIQUE CONSIDERATIONS FOR STATE CORPORATION TAX RETURNS

WISCONSIN

1. Income from obligations of the U.S. government is included in income when subject to the franchise tax (most corporate taxpayers), but not included when subject to income tax. The taxpayer pays the higher of the Income or Franchise Tax calculated.
2. Corporations may deduct from income, dividends received from a corporation with respect to its common stock if the corporation receiving the dividends owns, directly or indirectly, during the entire taxable year at least 70% of the total combined voting stock of the payer corporation.
3. The payroll factor includes wages, salaries, commissions and any other form of remuneration paid to employees for personal services including amounts contributed to a qualified cash or deferred arrangement under § 401(k), however matching contributions to the trust by the employer are not included. The payroll factor also includes management or service fees paid to a related corporation for the performance of personal services.
4. Foreign sales do not get thrown back to WI; sales to another state are subject to throwback and double-throwback at a 50% rate.
5. A recycling surcharge is effective for taxable years beginning after 1999. It applies to corporations with \$4,000,000 or more gross receipts from all activities. The surcharge rate is 3% of the corporation's gross tax liability, with a minimum of \$25 and a maximum of \$9,800. A corporation with a tax and surcharge of at least \$500 must make estimated tax payments. In addition, corporate members of partnerships and LLC's must include the flow through gross receipts in the calculation of the recycling surcharge. The gross receipts definition was clarified in early 2004 to include receipts from the rental of real property and also clarified partnership gross receipts. For more information see Publication 400 on the WI Department of Revenue Website.
6. For taxable years beginning after 1998, the definition of "doing business" is clarified to include issuing credit, debit or travel and entertainment cards to customers in WI. For taxable years beginning after 2000, the definition of "doing business" includes owning a general or limited interest in a partnership or LLC treated as a partnership that does business in WI.
7. WI does not conform to the federal bonus depreciation provisions of the federal JCWAA of 2002, or the provisions of the federal JGTRRA of 2003. WI does not conform to federal NOL provisions, but instead has a carried forward of 15 year and no carry back provision.
8. Federal taxable income generally is determined for WI purposes using the IRC as amended up through December 31st of the year previous to the year of filing, with certain exceptions for federal acts and provisions that have been specifically not adopted. The enhanced § 179 deduction is not allowed as well, and the limitation is \$25,000.
 - A corporation entitled to use the installment method of accounting must take the unreported balance of the gain on installment obligations into income in the taxable year of their distribution, transfer, or acquisition by another person or for the final taxable year in which it is required to file a WI Income or Franchise tax return, whichever comes first.
 - Corporate members flow up their percentage ownership of the sales, property, and payroll factors from the partnerships or LLC's taxed as partnerships for federal purposes into their own corporate apportionment factors to properly calculate the three factors.
 - WI does not allow the extraterritorial income exclusion.

WYOMING

1. WY does not impose a corporate income tax.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

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UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

ALABAMA

1. Gross income includes a shareholder's pro rata share of income, losses, and credits attributed to AL by an AL S corporation. A AL resident who is a shareholder of a foreign S corporation that does not have income attributable to AL, does not have to report the earnings from the S corporation on the AL return. However, any dividend/distribution from the foreign S corporation is taxable to the shareholder on the AL return.
2. AL allows an itemized deduction for federal FICA tax paid during the year.
3. The AL NOL law was changed, effective for tax years beginning after 12/31/98, allowing for a 2 year carryback and a 15 year carryover. An election can be made to forego the carryback period and only carryforward.
4. There is no provision in AL income tax law that allows for the deduction for the amortization of reforestation expenses.
5. AL excludes from income certain retirement, unemployment and welfare benefits.
6. Unlike federal law, AL income tax law does not allow for a foster child to be considered a dependent.
7. Unlike federal law, AL income tax law does not provide different tax rate treatments of transactions concerning capital assets.
8. AL exempts from income taxation the first \$25,000 of severance pay, paid as a result of administrative downsizing.
9. AL medical expenses are subject to a 4% AGI floor, rather than the federal 7.5% AGI floor.
10. AL part-year residents can deduct only those deductible expenses incurred during the period of residency.
11. AL does not accept the federal extension. Taxpayers must file form 4868A for both the first four-month extension as well as for the second two-month extension.
12. AL does not allow a deduction for child care expenses, nor does it have a child care tax credit.
13. AL conforms to the JCWAA of 2002 and the JGTRRA of 2003 as it relates to bonus depreciation. AL will allow the 30% and 50% depreciation limits on certain types of assets as outlined in the economic stimulus bill.
14. AL adopted the increased § 179 deduction threshold under the JGTRRA of 2003. The deduction is increased to \$100,000 and the phase-out starts at a total investment of \$400,000.
15. New regulations containing a provision making E-File mandatory will be phased-in over a 3-year period starting 1/1/2004. Tax preparers who prepared 250 or more AL individual income tax returns for the taxable year that began on 1/1/2004, prepare 100 or more returns using tax preparation software for the taxable year that begins on 1/1/2005, and those who prepare more than 50 returns for the taxable year that begins on 1/1/2006, will be required to E-File all of their current year individual returns.
16. AL allows a deduction for the actual federal income tax as shown on the federal return, regardless of when it was paid.

ALASKA

1. AK does not impose an individual income tax.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

ARIZONA

1. For multiple state individual income tax returns, determine the proper amount of income taxed by any other state, since this is the amount used in calculating the credit for taxes paid to other states.
2. For multiple state individual income tax returns, determine the proper credit for taxes paid to other states. For example, AZ residents cannot take a tax credit for taxes paid to CA on their AZ return; instead, the credit for AZ taxes paid must be claimed on their nonresident CA return. AZ only allows the credit if the other state does not allow the credit.
3. Nonresidents with capital gain on AZ real property must report that gain to AZ.
4. Nonresident partners and S corporation shareholders of pass through entities doing business in AZ are required to file a nonresident return and report their portion of the AZ sourced income.
5. A nonresident beneficiary of a trust must report any income, distributed or distributable, from the trust generated from sources within AZ.
6. AZ residents receiving pensions from employment in other states are taxable on the full pension income, but are allowed a \$2500 subtraction for pensions received from US government retirement plans authorized and enacted into the US Code and AZ state and local government plans.
7. Installment sale income originating from a non-AZ source at a time when the taxpayer was a nonresident is taxable to AZ when the taxpayer becomes an AZ resident subject to special rules in year of residency change. However, any income from an installment sale that has been properly taxed by another state in a previous taxable year and that is included in AZ gross income in the current taxable year may be subtracted.
8. Being a community property state, a problem arises when one spouse is an AZ resident and the other spouse is a resident of another community property state. At issue is what income is reported to each state; what deductions are allowed by each state; and on which return should credits be claimed. All of the AZ source income must be reported to AZ along with half of all other income. There are special rules for nonresident military married to an AZ resident.
9. AZ itemized deductions start with federal itemized deductions but AZ has added others including an adjustment to deduct 100% of unreimbursed medical expenses.
10. Taxpayers are required to add back the bonus depreciation deduction provided for in the federal JCWAA of 2002 and the changes made under the federal JGTRRA of 2003. Taxpayers are allowed a subtraction for depreciation allowable under the IRC computed as if the taxpayer had not elected bonus depreciation. For individual income tax purposes, AZ has conformed to the NOL provisions. Further, AZ requires an addition of § 179 expense in excess of \$25,000 for individuals. The amount added back can be subtracted ratably over a five year period.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

ARKANSAS

1. Social Security income is not taxable for AR.
2. The first \$6,000.00 of military service pay and retirement income is tax exempt for AR.
3. 30% of net capital gains are excluded from gross income. The remaining 70% is taxable as regular income.
4. NOLs maybe carried forward 5 years. NOL carrybacks are not allowed.
5. Interest from AR municipal bonds is tax exempt. All other states' municipal bond interest is included in AR taxable income.
6. The other state's tax return must be attached to the AR return when claiming the other state tax credit.
7. Part year and nonresident filers must include a complete copy of their federal return.
8. Taxpayers may be able to itemize deductions for AR purposes, even though they did not itemize on their federal return, due to the smaller AR standard deduction.
9. For tax years beginning in 2003 and 2004, AR imposes a 3% income tax surcharge on all AR taxpayers. The 3% applies to the tax liability computed using existing rates.
10. AR has adopted the federal income tax treatment for IRAs, deferred compensation plans and related retirement plans, made pursuant to the EGTRRA of 2001.
11. The Mississippi tax on gambling winnings is not allowed as a credit on AR, but the tax is allowed as an itemized deduction.
12. AR does not conform to the bonus depreciation provisions of the JCWAA of 2002 and the JGTRRA of 2003. Taxpayers will continue to file returns using depreciation and expensing provisions found in §§ 167, 168, 179 and 179A.
13. AR did not adopt the increased expense limit for § 179 under the JGTRRA of 2003. The § 179 deduction is limited to \$25,000 for AR tax computation purposes.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

CALIFORNIA

1. Nonresidents are taxed on income from a CA source. Taxable income and tax are first computed as if the nonresident was a full year resident, and then the CA tax is determined by multiplying the total tax by the ratio of CA source adjusted gross income to total adjusted gross income.
2. A part-year resident is taxed on income regardless of source during the period of CA residence.
3. Income of nonresidents from stocks, bonds, notes, or other intangible personal property is not income from sources within CA unless the property has acquired a business situs in the State. A business situs is acquired in this State if the property is employed as capital in CA. Generally, the situs of an intangible asset is the state of residence of the owner.
4. Interest income earned on municipal bonds issued by a municipality or state other than CA is taxable to CA.
5. CA's general NOL provisions allow for 50% of the business loss to be carried forward for five years, or if a short period, until exhausted. Certain activities qualify for a 100% carryover for an 8 to 15 year period.
6. CA lottery winnings are exempt from CA taxation. Remember to add back any gambling losses deducted due to the lottery winnings.
7. Pension income paid to a nonresident from a qualified pension plan that was earned from CA sources or while a CA resident may be excluded from income.
8. CA taxpayers may not claim the additional depreciation deduction provided under the recently enacted JCWAA of 2002 or the JGTRRA of 2003. CA does not conform to the extended NOL carryback provisions of the acts.

COLORADO

1. The definition of a resident vs. nonresident is based on the intent of the individual. Also, residency is established if an individual maintains a fixed dwelling in CO and is present in the state more than six months during the tax year. See also information on military personnel stationed outside the U.S. for 305 days.
2. The filing status for the CO return must conform to the federal filing status. A married couple filing jointly for federal purposes must file a joint Colorado return, even if one is a resident and the other is not.
3. Capital gain exclusion is allowed for CO property acquired after 5/9/1994 and held for at least 5 years. CO property includes stock in a CO corporation, limited liability company, or partnership (>50% of property and payroll in CO) or real or personal property located in CO. The post 5/9/1994 acquisition requirement is waived for tax years beginning on or after 1/1/1999 if the state surplus exceeds certain thresholds. A one-year holding period is required for tax years beginning on or after 1/1/2001 if the state surplus exceeds certain thresholds. There was no surplus for the year beginning 1/1/2003, so only the general modifications for assets held 5+ years and acquired on or after 5/9/1994 will be in effect.
4. CO conforms to the bonus depreciation provisions of the federal JCWAA of 2002. For individual income tax purposes, CO conforms to the NOL provision because the starting point for the CO individual income tax computation is federal taxable income after NOL.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

CONNECTICUT

1. Dividends from mutual funds whose assets comprise more than a 50% direct interest U.S. Treasury obligations are deducted from CT AGI to the extent they are derived from U.S. Treasury interest. The deduction applies only to the extent of income from U.S. Treasury obligations.
2. CT AGI is reduced by gain/increased by loss from sale of a CT muni bond, including sales of CT muni bond funds.
3. The property tax credit against the personal income tax is available only to residents, not nonresidents. The maximum personal income tax credit for local property taxes paid is increased to \$500 from \$350, for tax years beginning on or after 1/1/2005. The credit was \$350 for 2003 and 2004. The credit is phased-out for incomes in excess of specified thresholds.
4. Underpayment of estimated tax interest charges will not be applied to underpayments less than \$1000.
5. An alternative minimum tax applies only if federal AMT is incurred. The tax amount equals the lesser of 19% of adjusted federal tentative minimum tax or 5.5% (5%) of adjusted federal AMTI. An AMT credit is allowed in subsequent years in accordance with federal AMT credit recovery provisions.
6. Taxable lump sum distributions not included in federal AGI are added back.
7. Statutory residents (non-domiciliaries with a permanent place of abode in CT, who spend 183 days or more in CT) are entitled to credit for taxes paid to other state(s) on income from intangible personal property that is not used in a CT trade or business, as well as on earned income. This is only allowable if the taxpayer's state of domicile allows a similar credit for CT income taxes paid by CT domiciliaries who are statutory residents of that state. Note that CT prohibits resident taxpayers from claiming a credit for income taxes paid to another state to the extent the wages at issue are earned in CT under the CT statute.
8. If one spouse is not a CT resident, the resident spouse may file a separate CT return, or both spouses are also allowed to file jointly if joint federal return was filed.
9. An entry must be made on Form CT-1040 or CT-1040NR/PY for individual use tax, even if zero, to allow the statute of limitations for use tax to begin running.
10. For nonresidents or part-year residents, CT income tax is calculated on the higher of CT AGI or CT source income.
11. CT taxes a maximum of 25% of social security benefits.
12. CT does not conform to the 30 % or 50 % bonus depreciation provisions of the JCWAA of 2002 or the JGTRRA of 2003, respectively. Taxpayers claiming 30 % bonus depreciation deduction in computing federal taxable income must add back the full amount of the deduction and can claim the amount added back in equal installments over the subsequent four-year period. Taxpayers claiming the 50 % bonus depreciation deduction in computing federal taxable income must add back 60 % of the bonus depreciation deduction and claim the amount added back in equal installments over the subsequent four-year period. To the extent property qualifies for the 50 % bonus depreciation deduction for federal income tax purposes, but the individual elects to claim the 30 % bonus depreciation deduction on his or her federal income tax return instead, the individual is required to add back the 30 % bonus depreciation deduction on his or her CT income tax return in computing CT adjusted gross income. CT does not conform to the NOL provisions of the JCWAA of 2002.
13. Legislation enacted in 2004 requires pass-through entities to comply with estimated and annual tax payment requirements for certain nonresident owners. Tax must be paid by the pass-through entity at the highest applicable rate. The pass-through entity may file a group return on behalf of a "qualifying electing nonresident owner" (i.e., a nonresident individual for the entire tax year with no permanent place of abode in the state and whose only CT income is pass-through income) provided at least two nonresident owners consent to group filing. An election to participate in a group return is binding on the qualified electing nonresident owner, and the owner waives the right to claim any CT personal exemption or credit. For non-electing partners, the legislation requires that the pass-through entity remit to the state income taxes in an amount equal to the highest marginal tax rate in effect multiplied by the owner's distributive share of the pass-through entity's separately and non-separately stated items, to the extent derived from in-state sources. The pass-through entity is required to file a statement for all owners on whose behalf such a payment was made. If the owner's distributive share of pass-through entity income from CT sources is less than \$1,000, the entity is not required to make a payment.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

DELAWARE

1. The itemized deduction income tax addback does not include city taxes, and includes only state taxes for which a credit is claimed.
2. In many cases it is advantageous to file married filing separate returns instead of joint filing if both spouses have DE sourced income. When filing as married filing separate returns, if the one itemizes deductions, the other must also itemize.
3. There are three limitations for the credit for taxes paid to other states, including DC.
4. Self-employed health insurance deduction - allowed 100% less amount deducted on Form 1040, page 1.
5. If filing a joint federal return but separate DE returns, be sure to recompute your itemized deductions for state purposes using the phase-out rules "as if" separate federal returns had been filed.
6. If federal itemized deductions were subject to phase-out, DE itemized deductions should only be reduced by the pro-rata amount of state taxes that was not disallowed by the federal phase-out.
7. If filing a joint federal return but separate DE returns, the \$25,000 rental real estate allowance under the passive loss limitation rules must be recomputed for state purposes "as if" separate federal returns had been filed.
8. Capital gains are included in definition of eligible retirement income qualifying for the pension exclusion.
9. Lump-sum distributions from qualified pension plans, profit share of stock bonus plans are taxed as ordinary income using a 10-year average method.
10. DE has not adopted any reciprocity agreement.
11. If an individual is required to file returns both as a resident and/or as a nonresident, personal exemptions and deductions must be prorated between the period of time the individual is a resident and the period of time the individual is a nonresident. In addition, the total of the taxes due cannot be less than if the tax was determined on one return.
12. Part-year resident individuals may either report and compute the tax as if a full year resident, taking advantage of the credits provided for taxes paid to other states, or report and compute the tax as if a nonresident for the entire year.
13. For taxpayers 60 and older, the deduction for pensions and eligible retirement income has been increased to \$12,500.
14. DE conforms to the federal bonus depreciation and NOL provisions of the federal JCWAA of 2002 and JGTRRA of 2003.
15. Taxpayers are allowed a subtraction from federal adjusted gross income for the amount of any refund of DE state income taxes imposed, to the extent included in federal adjusted gross income for the tax year.
16. An electing small business trust ("ESBT") must add to its federal taxable income all S corporation income that is derived from sources within DE, regardless of whether the income is included on Line 22 of the federal return. Additionally, ESBTs are not permitted a deduction that benefits only non-resident beneficiaries of income derived from the indirect ownership of business and tangible property in DE.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

DISTRICT OF COLUMBIA

1. DC does not require that interest earned on states' obligations be included in DC taxable income.
2. Individuals that are part of an unincorporated business are allowed to subtract on DC Form D-40, line 53 their share of income reported and taxed on a DC franchise or fiduciary tax return.
3. Individuals that are part of an unincorporated business must add back on DC Form D-40, line 47 their respective share of deductions (i.e. salary expense) taken by the unincorporated business in calculating its franchise tax.
4. DC imposes a franchise (income) tax on unincorporated businesses. Certain professional and personal services entities are exempt from this tax.
5. The salary expense deduction on DC Form D-30, line 32 cannot be in excess of 30% of the unincorporated business's net income not including the salary expense deduction.
6. DC is prohibited from imposing a personal income tax on nonresident individuals.
7. All returns reporting a substantial overpayment/refund request should include a completed Form FR-119 attached to the return. DC Form FR-119 must be attached and filed in order to receive interest on a refund claim including an overpayment on an original return.
8. DC does not conform to the federal bonus depreciation provisions of the federal JCWAA of 2002. DC also does not conform to the bonus depreciation provisions and increased § 179 expensing of business asset provisions of the federal JGTRRA of 2003. DC does not conform to the NOL provisions of the Acts.
9. DC's version of the federal 529 college savings plan allows a \$3,000 annual deduction (\$6,000 if married filing jointly if both own accounts) for plan contributions. Amount contributed greater than \$3,000 in any one tax year may be carried forward, subject to the annual limit, as a deduction in subsequent tax years, up to five years from the contribution date.

FLORIDA

1. FL does not impose an individual income tax, but does impose an intangibles tax.
2. Intangibles tax return is reported, based on current market value as of January 1st and is due June 30th. There is a sliding scale of discount (4% to 1%) if return is filed before June 1st. There is a minimum total penalty of 10% if return is filed after June 30th and additional penalties and interest based on further delay in filing.
3. FL requires that individuals or couples must pay or file electronically when their tax liability was \$30,000 or more in the most recent reporting period for intangible personal property tax.
4. If the tax due before discount is less than \$60, you are not required to file a return or pay tax. However, a corporation that elects to file for its shareholders, must notify the department.
5. After 1/1/2001, accounts receivable in the normal course of business are not subject to the FL intangible tax.
6. Limited partnerships registered with the Securities and Exchange Commission are subject to the intangible tax.
7. An item of intangible personal property, otherwise subject to tax, that is transferred to and held in a valid trust which does not have taxable situs in FL is not subject to the intangible tax.
8. Effective 7/1/2003, every individual will be entitled each year to an exemption of the first \$250,000 of the value of property subject to the annual tangible tax. A husband and wife filing jointly will be entitled to an exemption of \$500,000.
9. An extension for filing a return may be requested by using the TeleFile system at 1.800.550.6713 or by filing Form DR-602 by June 30. The Department will grant an extension for filing a return until September 30.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

GEORGIA

1. GA recognizes elections made by individuals under the IRC. An exception to that rule is: 1) either the husband or wife is a resident and the other is a nonresident with no GA income, or 2) the husband and wife are nonresidents with at least one having GA income. Under those conditions they must file separate income tax returns in GA.
2. GA taxpayers must attach pages 1 and 2 of their federal returns to GA IT-500 if AGI is greater than \$40,000 or if AGI is less than W-2 earnings. Also, regardless of income, if deductions are itemized on the federal form 1040, a copy of federal schedule A must be included with the GA tax return.
3. GA taxpayers must add back the state income tax deduction for taxes paid to states other than GA. An adjustment is allowed for the effect of the 3% AGI limitation.
4. GA allows taxpayers age 62 and older to exclude up to \$15,000 of retirement income (effective 1/1/2003).
5. Social Security income is not taxable for GA purposes.
6. A self-employed individual taking a Social Security credit under § 38 is allowed a deduction equal to the credit beginning with the tax year 1999.
7. Lottery prizes from the GA Lottery Corp. are taxable to nonresidents as well as residents of GA.
8. Prior year tax exception to the underpayment penalty does not apply if the prior year tax was zero or the period was less than 12 months. The prior year exception is based on making current year tax payments that equal or exceed the tax shown on the prior year tax return.
9. Generally, nonresident partners are subject to GA filing requirements. However, income derived by nonresident partners of GA partnerships are not taxable and does not create a filing requirement, if the partnership derives income exclusively from dealing in securities on its own behalf. This exemption does not apply to family limited partnerships in which certain related family members own a majority interest. Note that any income not from securities dealings would thus taint all of the partnership's income and make it subject to GA taxation.
10. GA has not adopted the IRC provisions for computing the additional depreciation deduction provided under the JCWAA of 2002 or JGTRRA of 2003. As such Georgia will not allow the 30% bonus depreciation.
11. GA does not allow the \$250 deduction for educators who bought classroom materials (individual returns only). If this is deducted on the Federal return, it should be added back to GA income.
12. GA has not adopted the NOL adjustments made by the JCWAA of 2002. As such, GA will continue to use the two-year NOL carry back provision allowed under the old federal law.
13. GA will not allow a tax-free exchange under the rules of § 1031 if the new property is located outside the state of GA.
14. GA will allow a reduction from GA adjusted gross income for any income allocated to a shareholder of an S corporation where the S corporation itself had to pay an income tax.

HAWAII

1. Taxes paid to other states or foreign countries can be taken as a deduction as well as a credit (after federal limitation).
2. If the taxpayer owns a business in HI, verify filing of HI general excise and use tax returns.
3. Effective for taxable years beginning after 12/31/98, the method of calculating the HI income tax for nonresidents and part-year residents has been revised. A nonresident will be taxed on income only from HI sources. A part-year resident will be taxed on income only from HI sources during the period of nonresidency and on total income (regardless of source) during the period of residency.
4. HI does not conform to the bonus depreciation provisions of the federal JCWAA of 2002. HI does not conform to the NOL provisions of the Act.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

IDAHO

1. Capital loss carryforward incurred outside the state before becoming an ID resident should be added back in arriving at ID income.
2. State or local income tax refund that was included on the federal return, should be subtracted in arriving at ID income.
3. The taxpayer's qualification for other additions and subtractions should be checked before determining ID income.
4. There are credits available for contributions to ID educational entities and to ID youth and rehabilitation facilities.
5. A \$20 per exemption grocery credit is available with an additional \$15 credit for those 65 and older. The credit is prorated for part-year residents and not available for nonresidents.
6. There is a credit available for maintaining a home for a family member age 65 or older or developmentally disabled.
7. The filing requirement for nonresident and part year residents is \$2,500 or more of ID gross income.
8. Taxpayers are required to pay the permanent building fund tax of \$10 if required to file an ID income tax return.
9. Deduct social security benefits and benefits paid by the Railroad Retirement Board or Canada social security benefits (OAS or CPP) that are taxable on the federal return.
10. ID allows a capital gain deduction for certain qualifying ID property (e.g., real property held 18 months or more, timber held at least 24 months).
11. Special rules apply to active duty military personnel.
12. The standard deduction for married individuals filing jointly (and Qualifying Widower) is twice the federal amount for a single person.
13. Sales/Use tax must be reported for out of state purchases.
14. ID has separate NOL provisions. Accordingly, the NOL deduction claimed on the federal return must be added back to arrive at ID income. The ID NOL carryback for any loss year is limited to a maximum of \$100,000. ID does not conform to the NOL provisions of the federal JCWAA of 2002.
15. ID does not conform to the bonus depreciation of the federal JCWAA of 2002 (30% additional first year depreciation) nor the bonus depreciation provisions of the JGTRRA of 2003 (50% additional first year depreciation). If the bonus depreciation is claimed for property, then depreciation, adjusted basis, and any gains or losses related to that property must be computed separately for ID and the difference between the ID and federal amounts must be added or subtracted.
16. The ID 2004 legislature adopted the § 179 provisions of the JGTRRA of 2003 thus increasing the amount that can be expensed to \$100,000 for property placed in service in taxable years beginning in 2003, 2004, and 2005
17. The federal above-the-line deduction for classroom expenses of eligible educators must be added back on the ID return.
18. In addition, taxpayers who placed personal property in service during 2003 that qualifies for the investment tax credit, may be able to elect a property tax exemption instead of claiming the investment tax credit on the property. The property tax exemption is allowed for two years.
19. Effective 1/1/2004, the full amount of premiums paid for long-term care insurance may be deducted from ID personal taxable income. Formerly, the deduction was limited to 50 % of premiums paid.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

ILLINOIS

1. Correctly compute limitations on Schedule CR, which does not allow adjusting from AGI states (like IL) to Taxable Income states.
2. Individuals with businesses often miss IL credits (e.g., inadvertent contributions, federal-state comparison errors, etc.).
3. IL does not tax any federally taxed portion of retirement pensions or annuities, which include payments from qualified employee benefit plans, social security, IRAs, Keogh plans, etc. Early distributions from qualified plans and IRAs are also exempt from IL income tax. Rollovers of regular IRAs into Roth IRAs are not taxed.
4. Do not subtract total military pay. Subtract only the amount of military pay received while on active duty in the U.S. Armed Forces or IL National Guard, or as a cadet at U.S. Military, Air Force and Coast Guard Academies.
5. Subtract only federally taxed IL state income tax refunds on line 7. Refunds received from other states are allowed as a subtraction on line 9.
6. If subtracting income from U.S. government obligations received from a money market or mutual fund, attach a copy of the statement received from the mutual fund along with any worksheet showing the calculation of the subtraction for U.S. government interest received from the fund.
7. Income from U.S. government obligations received from a partnership, an S corporation, an estate, or a trust should be reported on line 9 of Form IL-1040, not line 8. Attach to the return a copy of the notification furnished to the taxpayer (Form K-1, etc.) that specifically identifies and details the amount of the subtraction being claimed.
8. Specifically identify the name of the IL or local government obligation(s) and the amount of interest received from the obligation for all tax-exempt interest being subtracted on line 9. Any otherwise tax-exempt income received from a mutual fund is not exempt from IL tax. IL, with few exceptions, taxes interest received from IL municipal obligations.
9. The credit for IL Property Tax is allowed only if the taxpayer's principal residence during the prior year was in IL. Review the instructions for Form IL-1040, line 20 carefully to ensure that the taxpayer qualifies for this credit.
10. Effective for taxable years ending after 8/12/1999, taxpayers may deduct from adjusted gross income for IL personal income tax and personal property replacement income tax purposes: 1) all interest and expenses related to producing tax exempt income that are disallowed as federal deductions under § 265 regarding expenses and interest relating to tax exempt income and § 832 (b)(5)(B)(i) regarding the reduction of the deduction in computing insurance company taxable income, and 2) expenses associated with federal employment credits, the credit for qualified clinical testing expenses, and the credit for increasing research activities that are disallowed as federal deductions under §280C regarding certain expenses for which credits are allowable.
11. Effective 8/20/1999, the research and development credit against personal income tax may be claimed by partners, shareholders of S corporations, and owners of LLCs that are treated as a partnership.
12. IL does not conform to the federal bonus depreciation provisions of the federal JCWAA of 2002 or JGTRRA of 2003. IL does conform to the NOL provisions of the Act.
13. The availability of the personal property tax replacement tax credit, the training expense credit, and the research and development credit has been limited to tax years ending prior to 12/31/2003. Formerly, no termination date was specified for the credits, except that the research and development credit did not apply to costs incurred after 12/31/2004. In addition, these credits may not be carried forward to any year ending on or after 12/31/2003.
14. For taxable years beginning after 2002, if the amount of the earned income credit exceeds the taxpayer's income tax liability, the excess credit will be refunded to the taxpayer. The refunds are subject to the availability of funds from the federal Temporary Assistance for Needy Families Block Grant and to the state's ability to meet its required Maintenance of Effort.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

INDIANA

1. Individuals may take a deduction for up to \$2,500 of IN real estate tax paid on principal residence.
2. Determine whether the tax credit is available for contributions to IN colleges/universities.
3. Social Security income and/or Tier 1 and 2 Railroad Retirement Benefits that are taxable for federal purposes are not taxable for IN purposes.
4. Individuals who rent their principal place of residence may be eligible for a deduction up to \$2500, if rented property was subject to IN property tax.
5. A deduction for military service income, which includes active, reserve or retirement income (if over age 60) is allowed up to \$2000.
6. Individuals may be eligible for a deduction (up to \$1,000) for installation of new insulation, weather stripping and storm doors or windows.
7. Certain IN state lottery winnings (e.g., instant game, Hoosier Millionaire) are taxable.
8. Employees who work in designated enterprise zones may be eligible to deduct a portion of their income.
9. Certain individuals over the age of 65 are eligible for a tax credit.
10. A refund of IN income tax included as federal income in the year of receipt is deducted in determining IN taxable income.
11. IN does not conform to the federal NOL provisions of the federal JCWAA of 2002
12. IN does not conform to the federal depreciation provisions of the federal JCWAA of 2002 and the JGTRRA of 2003.
13. The credit for taxes paid to other states includes taxes paid to any foreign countries or U.S. possessions (Form 1116 attachment).
14. IN has reciprocity agreements for wage income with KY, MI, OH, PA and WI. IN does not have a reciprocity agreement with IL.
15. IN allows as a deduction "qualified" IN partnership long-term care policy premiums (for any portion not already deducted as federal self-employed health insurance).

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

IOWA

1. Properly allocate income and deductions between spouses on a combined return. A combined return allows each spouse to utilize the IA progressive rates.
2. Include the IA tuition and textbook credit. Some expenses incurred for extracurricular activities now qualify for the credit.
3. Because IA tax is calculated utilizing the same rate table regardless of filing status, it is generally more beneficial for married taxpayers to use “married filing separately on combined return” rather than “married filing jointly” if both spouses have income.
4. IA allows a deduction for 100% of federal income taxes paid during the year.
5. Federal income tax refunds received during the year are taxable.
6. Although IA allows a deduction in computing net income for one half of self-employment tax paid, no self-employment tax is allowed in the IA federal tax deduction.
7. If utilizing the filing status “married filing separately on a combined return”, an allocation must be made between spouses to calculate the proper deduction for federal taxes paid (utilizing federal taxes withheld and the ratio of each spouse’s income not subject to withholding) and federal tax refunds received (based upon prior year IA net income).
8. IA allows a deduction for 100% of health insurance premiums paid; any premiums deducted in full on the first page of the return, cannot be included in medical expenses deducted as an itemized deduction. This includes Long Term Care premiums if allowed as a federal itemized deduction.
9. Many taxpayers may be able to itemize deductions for IA purposes, even though not itemizing on the federal return, due to IA’s small standard deduction.
10. IA allows an exclusion for pension income of \$6,000 for individuals, including surviving spouses and other survivors, or \$12,000 for married couples filing jointly and married couples filing separately on the combined return form if both spouses qualify.
11. IA will only tax 50% of social security benefits, not the maximum of 85% taxed on the federal return.
12. IA allows a greater deduction for charitable mileage than is allowed on the federal return.
13. There are a number of other adjustments allowed in computing net income that are not allowed in computing federal adjusted gross income. See IA instructions.
14. IA allows a 100% exclusion for certain capital gains earned on the sale of assets. See IA instructions and website for more information.
15. IA resident shareholders of S corporations that do business within and outside of IA are allowed to calculate taxable income by allocating and apportioning their pro-rata share of income from the S corporation. A rule is amended to clarify what is considered a distribution for purposes of the apportionment of income for resident shareholders of S corporations. For tax years beginning after 2003, any distributions paid from income apportioned outside of IA for tax years in which a resident shareholder elected to apportion income within and without IA are considered distributions for which IA tax has not been previously paid. Distributions treated as a return of capital for federal income tax purposes for tax years beginning prior to 2004 are considered distributions from income previously taxed by IA. If distributions during a year exceed the current income of an S corporation, then excess distributions are considered to be made in the following order: (1) from the immediately preceding year's income of the S corporation, (2) to each preceding year's income of the S corporation in reverse chronological order, and (3) in accordance with the ordering rules of § 1368.
16. IA does not conform to the federal NOL and depreciation provisions of the federal JCWAA of 2002 or the JGTRRA of 2003. However, the IA Department of Revenue has indicated that it will conform to the increase § 179 in the 2004 legislative session, and therefore did not require adding back the increase § 179 on 2003 return.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

KANSAS

1. A nonresident who receives income from KS sources must file a KS individual income tax return regardless of the amount of KS source income. A resident is a person who spends more than six months of the taxable year in KS.
2. A part-year resident has the option of filing as a resident or a nonresident. Complete the part-year residency dates at the top of the K-40. Use the most beneficial method. If filing as a resident all income is taxed as KS and then a credit can be taken for taxes paid to another state. A nonresident will complete Schedule S, Part B to determine the nonresident allocation percentage to compute nonresident tax.
3. A military person stationed in KS (if not a KS resident) needs to file a nonresident KS return only if the person (or spouse if filing jointly) received income from KS sources.
4. A nonresident reports income from KS sources. This does not include interest, dividends, annuities or gains from the sales or exchange of intangible property, such as bank accounts, stocks or bonds, unless earned by a business, trade, profession or occupation carried on in KS.
5. A part-year resident filing as a nonresident includes income, gain, loss or deduction received while a KS resident, whether or not from KS sources, unemployment compensation derived from sources in KS, and any income from KS sources while a nonresident of KS.
6. Adjustments and modifications to KS source income on Schedule S, Part B are allowed only as they apply to income related to KS.
7. In the case of a deceased individual: (a) if a refund is due and the refund is less than \$100, a surviving spouse is not required to submit documentation of death, (b) if the refund is greater than \$100, documentation of death is required, (c) if the requester of the refund is a person other than the surviving spouse, documentation is required.
8. Consider the following items for which tax treatment varies between the federal return and the state return:
 - 1) State and municipal interest from states other than KS is not exempt; KS municipal interest is exempt from KS income tax.
 - 2) Contributions to KPERS.
 - 3) Differences between Federal and KS NOL carryovers.
 - 4) Interest from U.S. Government obligations. (Note: Dividend income from mutual funds could include U.S. Treasury interest that needs to be excluded.)
 - 5) Federal civil service annuity.
 - 6) KS pension plans exempt from KS tax.
 - 7) Railroad Retirement Benefits.
 - 8) Military Retirement Benefits are exempt from KS income tax.
9. Determine if the client lives in an area subject to the intangible tax. There is a senior citizen exemption available.
10. Determine the applicability of various KS Tax Credits. A new credit is the "Assistive Technology" contribution credit for a family or individual whose household income is less than 300% of the federal poverty level. The credit is 25% of any amount placed in an individual development account to be used to purchase equipment or items that increase, maintain or improve functional capabilities of individuals with disabilities. Beginning in 2006, a new tax credit is allowed of 50% of contributions made to the KS community entrepreneurship fund. The credit is limited to \$50,000/year for individuals. The contribution for which the credit is claimed must be added back. For tax years 2005 and after, the investor tax credit replaces the venture capital investment tax credit and provides a credit of 50% of contributions for "seed capital" funds with a \$50,000/year per business limit for individuals with a limit of no more than 5 qualified businesses per year.
11. For tax year 2005 and after, a deduction from federal AGI may be claimed of up to \$500 (increasing by \$100/year up to a maximum of \$1000) for qualified long-term care insurance premiums.
12. KS does conform to the NOL and depreciation provisions of the JCWAA of 2002.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

KENTUCKY

1. Retirement and pension income is fully excludable for KY income tax purposes up to \$39,400 for taxable years beginning 1/1/2004.
2. KY requires a taxpayer to make payments of estimated taxes when his/her gross income from sources other than wages upon which KY income tax will be withheld, can be reasonably be expected to exceed \$5,000 for the taxable year. Also, no estimated tax payments are required if the tax liability can reasonably be expected to be \$500 or less.
3. Although the foreign tax credit is not available, KY permits a deduction of foreign taxes paid by individuals.
4. KY has a reciprocity system with IL, IN, MI, OH, VA, WV and WI that exempts compensation income earned in these states from KY income tax. This exemption does not apply to income other than compensation.
5. KY credit for taxes paid to other states is available to KY full-year and part-year residents but is applicable only to tax paid on income from non-KY sources that are taxed in both KY and another state. When KY law exempts income from KY taxable income but another state does not exempt the income, no credit is available for the income tax paid to the other state that was excluded from KY taxable income.
6. Municipal interest income for sources outside of KY is taxable to KY residents.
7. The resident taxpayer may claim a childcare credit equal to 20% of the federal credit.
8. The resident taxpayer is entitled to a low-income credit if adjusted gross income is \$25,000 or less.
9. Long-term care insurance premiums and medical coverage premiums paid with after tax income are deductible from adjusted gross income.
10. KY allows various business related credits, including economic development projects, Enterprise Zone, Bluegrass Skills Training, hiring of unemployed, Recycling and Composting.
11. The teachers and other educators out-of-pocket expenses for classroom supplies deduction, allowed for federal purposes is not deductible for KY tax purposes.
12. The two year NOL carryback rules provided in § 172 in effect on 12-31-2001 apply for KY income tax purposes instead of the special 5-year carryback rule provided in the JCWAA.
13. Effective for taxable years ending after 9-10-2001, an individual that for federal income tax purposes elects to utilize the 30% special depreciation allowance or the additional NY Liberty Zone § 179 deduction will have a different depreciation deduction for KY purposes. The differences will continue through the life of the assets. There will be recapture and basis differences between KY and federal income tax until the assets are sold or fully depreciated. KY has not adopted the IRC provisions for computing depreciation under the JGTRRA of 2003.
14. KY has a 12-month extension for those taxpayers that are members of the armed service and are stationed in a presidential designated combat area.
15. KY allows a child and dependent care tax credit, which is equal to 20% of the credit allowed for federal tax purposes.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

LOUISIANA

1. Consider deducting the optional federal income tax deduction, which is increased by the amount of the foreign tax credit, rather than taking the credit on the LA return (which will be limited to \$25).
2. Non-resident individuals are allowed to carryback and carryforward their LA NOLs. LA NOLs may be carried and used in the same manner that would be allowed for federal purposes if the non-resident individual's federal return consisted of only the LA items of income and loss.
3. LA conforms to the bonus depreciation and NOL provisions of the federal JCWAA of 2002 and JGTRRA of 2003.
4. LA now allows a credit for federally qualifying long-term care insurance premiums paid. However, this credit is not allowed until a special fund is set up to provide for this credit. As such, the credit is not yet available. Check LA website for updates.
5. LA does not tax Social Security benefits that may be included on the federal income tax return.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

MAINE

1. ME taxes federal adjusted gross income, with minor modifications. ME AGI is reduced by the same deductions as federal (standard or itemized). State income tax, deductible costs incurred in the production of ME exempt income, and deductible costs of producing income exempt from federal income tax but taxable by ME are also deductible. For 2002, the personal exemption is \$2,850.
2. ME imposes an additional tax of 15% of the federal tax on early distributions from a qualified retirement plan. Likewise if a taxpayer computes a separate federal tax on a lump-sum distribution from a retirement plan, ME imposes an additional tax of 15% of the federal tax.
3. ME may impose a minimum tax at the rate of 27% of adjusted federal minimum tax. Adjusted federal minimum tax is calculated by starting with federal tentative minimum tax and making certain state modifications. Specifically, ME requires the add-back of the federal AMT foreign tax credit and the deduction of that portion of federal tentative minimum tax attributable to income that states are prohibited from taxing under federal law.
4. ME has a variety of credits against tax, including a credit for the elderly (20% of the federal credit amount), child and dependent care credit (25% of the federal credit amount), and credit for income tax paid to other jurisdictions.
5. If ME taxable income is \$2,000 or less, and if taxpayer and spouse (if married) are not claimed as dependents on another's return and are not subject to ME minimum tax, then a low-income credit eliminates all ME income tax otherwise due.
6. ME taxpayers must report the amount of use tax owed. If an exact amount is not known the taxpayer their use tax liability as 0.04% of ME adjusted gross income. Under reporting of use tax may subject the taxpayer to an assessment for the additional use tax plus interest and penalties.
7. For tax years beginning in 2002, 2003 and 2004, the net effect of the federal 30% bonus depreciation must be added back for ME income tax purposes. However, 1/3 of the required add-back for each of the three tax years may be used to offset taxable income for each of the three tax years beginning two years after the add-back was made. Any add-back related to 3-year property may be fully recovered in the tax year beginning 2 years after the tax year in which it was made.

MARYLAND

1. Consider the applicability of the annualization method for estimated tax payments. Although not provided for by the statute, this method has been allowed for individuals for some time.
2. Review the domicile rules and the definition of a MD resident.
3. Income from GNMA securities is taxable.
4. Consider the nonresident withholding requirements for partners, S corporation shareholders, and LLC members.
5. Military pay for active duty outside the US or its possessions may be entitled to a \$15,000 deduction.
6. Credit for taxes paid to another state can only be applied against the state tax liability, not the county.
7. MD does not conform to the 30% bonus depreciation under federal JCWAA of 2002 nor the 50% bonus depreciation under JGTRRA of 2003. In addition, MD does not allow for the additional § 179 depreciation deduction under JGTRRA of 2003. Use Form 500DM Decoupling Modification to report difference between MD depreciation and federal depreciation taken.
8. MD does not conform to the NOL provisions of the federal JCWAA of 2002
9. Consider the various MD tax credits available to MD taxpayers. Note that some credits require pre-approval and/or application to be submitted to various MD agencies before the credits can be claimed on Form 502.
10. MD has reciprocal agreements with residents of DC, PA, VA and WV. Residents of these reciprocal states are not required to file a MD tax return if their only MD income is from wages.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

MASSACHUSETTS

1. With limited exceptions (e.g., certain medical expenses), there are no itemized deductions available for individuals.
2. Ordinary business gains (Part B income) can be offset by capital (Part C) losses, if generated by the same trade or business.
3. MA taxes long-term capital gains at the Part B income rate.
4. MA generally has adopted the IRC as of 1/1/1998. Changes to the IRC after this date are not followed by the Commonwealth unless specifically adopted by the legislature or unless specifically excepted in TIR 98-8 and TIR 98-15.
5. In general, there is no deduction or credit available for foreign taxes. However, a resident is allowed a credit for taxes paid to other states or to Canada or any of its provinces.
6. A taxpayer who maintains a permanent place of abode in MA and spends 183 days or more in MA will be taxed as if they were a resident. This includes students who rent off-campus.
7. § 1231 property is included as MA capital asset and is taxed as in No. 3 above.
8. MA source income is any income effectively connected with any trade or business including employment carried on in MA, the MA lottery, and ownership of real and tangible property in MA.
9. MA does not allow carryforward of NOLs. Carryforward of suspended passive activity losses are allowed and are computed using the federal rules as if the MA passive activities were the taxpayer's only passive activities. Thus the MA suspended passive activity losses can be greater or lesser for a nonresident than the federal amount.
10. MA does recognize LLCs and S corporations as flow through entities, although they also may be subject to tax at the entity level.
11. MA net capital losses (short-term or long-term) can offset up to \$2,000 of Part A (interest and dividends) income.
12. MA has decoupled from the federal bonus depreciation rules under § 168(k).
13. Effective for tax years beginning on or after 1/1/2003, a nonresident is liable for MA personal income tax on items of gross income from any trade, business, or employment carried on by the taxpayer in the commonwealth, whether or not the nonresident is actively engaged in a trade, business, or employment in the commonwealth in the year in which the income is received. Income taxable by MA includes income that is attributable to the taxpayer's trade or business in the commonwealth in any year, regardless of the year in which that income is actually received by the taxpayer and regardless of the taxpayer's residence or domicile in the year it is received.
14. For taxable years commencing on or after 1/1/2005, a credit against personal income tax will be allowed for 20% of the qualified rehabilitation expenditures made by a taxpayer with respect to a qualified historic structure. The credit will be allowed for the taxable year in which the substantially rehabilitated property is placed in service, that is, when occupancy of all or some of the structure is permitted.
15. A taxpayer's duty to notify the MA Commissioner of Revenue of any final determination of a change in the taxpayer's federal taxable income is expanded to include a closing agreement or accepted offer in compromise under the IRC or any similar agreement that results in a change in federal taxable income, whether or not the audit or other review is complete with respect to issues not addressed in the agreement, applicable to IRS closing agreements executed on or after 1/1/2004.
16. The deduction for charitable contributions was suspended for tax year 2002. The deduction may become available in future tax years.
17. The deduction for employment-related child and dependent care expenses for MA purposes may exceed the federal dollar limit related to the dependent care credit under § 21.
18. MA has not adopted the expanded benefits for student loan interest deductions under the EGTRRA of 2001, but may allow a more favorable MA deduction for undergraduate education debt.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

MICHIGAN

1. In order for tuition paid to qualify for the college tuition credit, the school must be a MI institution of higher education that certifies the tuition will not increase by more than the preceding year's rate of inflation, and the taxpayer must be a MI resident with household income less than \$200,000.
2. The self-employment tax that was subtracted from federal taxable income must be added back.
3. Income from private pensions or qualifying IRAs is deductible, but limited. In addition, benefits received from retirement annuity policies are deductible up to specified amounts if the payments are made for life to a senior citizen or spouse. However, pension benefits received from certain public sources are totally deductible.
4. Part year residents are required to pay MI income tax on wages earned while a MI resident. Deferred compensation and pensions are allocated to the state lived in when received, interest and dividends are allocated to the state of residence regardless of where earned, and moving expenses are allocated to the state of destination.
5. The taxpayer must own or rent and occupy the property on which he claims a homestead property tax credit. A credit may be claimed only for one, primary property. Income not subject to tax such as social security and disability income is included in household income when computing the allowable homestead property tax credit.
6. Contributions made to a homeless shelter or food bank, located in MI, only qualify for the credit if the payment is made in cash or check, and the primary purpose is to provide overnight accommodations or food to indigent persons.
7. The nexus standard for MI Income Tax is Public Law 86-272 and the rules are different from the nexus standard utilized for SBT.
8. MI does conform to the bonus depreciation, enhanced § 179 provisions, and the NOL provisions of the federal JCWAA of 2002 and JGTRRA of 2003.
9. Taxpayers age 65 or older may subtract interest, dividends and capital gains included in AGI. This subtraction is limited to a maximum of \$8,408 on a single return or \$16,815 on a joint return. However, the maximum must be reduced by the pension subtraction.
10. Composite filing is now specifically authorized under the statute, the Department will no longer require the execution of a separate composite filing agreement (Treasury Form 750) as a prerequisite to filing a composite return. In addition, the Department notes that it has changed its prior administrative composite filing requirements, effective for tax year 2003 and thereafter, a withholding requirement on most flow-through entities with nonresident members for withholding payments due after 10/1/2003. Entities not previously registered for withholding must file Form 518, Registration for MI Taxes.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

MINNESOTA

1. A deduction or credit, depending on income limitations, is available for a portion of school expenses for children in grades K-12. The purchase of educational equipment required for a class (such as musical instruments) is a qualifying expense for the K-12 deduction or credit. Beginning for educational expenses paid in 2002, the amount of the K-12 education credit is limited to 75% of the allowable expenses.
2. A credit is allowed for MN resident individuals for income taxes paid to other states including District of Columbia, and Canadian provinces or territories.
3. Non-itemizers who made more than \$500 of allowable charitable contributions can deduct 50% of total contributions over \$500.
4. Because self-employed persons can now deduct 100% of their health insurance premiums in determining federal taxable income, the related MN subtraction and schedule M1H have been eliminated.
5. Beginning in 2003, a \$5 preparer fee could apply to each paper filed return that could have been filled electronically.
6. Taxpayers who are claiming MN tax withheld must complete and attach Schedule M1W. W-2s and 1099's should not be attached to the MN return, but kept in the individual records for future reference.
7. MN has not adopted the IRC provisions for computing the additional depreciation deduction provided under JCWAA 2002 and JGTRRA of 2003. MN will follow a modified format. MN will disallow 80% of the bonus depreciation in the first year and allow a recapture of the 80% over the next 5 years in equal installments.
8. Individuals who had suspended depreciation deductions (e.g., under passive loss rules or a loss in excess of basis) that resulted in no reduction in federal taxable income for the taxable year, may reduce the bonus depreciation addback by the amount of loss not allowed by the activity for 2003 up to the bonus depreciation claimed by the activity. In the future when the 2003 suspended loss is allowed, the bonus depreciation must be included in the bonus depreciation addition in that year.
9. Use Form M1X to file for NOLs. NOLs can be carried forward and back in the same manner and to the same tax year as for federal purposes. If carrying back a NOL on federal Form 1045 or 1040X, the change to federal taxable income on those forms would also apply to MN Form M1X.
10. Beginning in 2003, the charitable contribution deduction allowable for the MN alternative minimum tax was changed. Taxpayers are allowed a deduction for the portion of charitable contributions that exceeds 1% of federal adjusted gross income. To determine the amount you are allowed to deduct, refer to instructions for form M1MT, line 11.
11. Individuals can pay their tax due via the internet or by phone even if they file a paper return using the department's *e-FILE Minnesota* system. There is no charge for using this service. To pay electronically over the Internet go to www.taxes.state.mn.us and click on the *e-FILE Minnesota* logo. Follow the prompts to make the payment. To pay by phone, call 1-800-570-3329. For both types of payments, the following information is needed: social security number, date of birth (and spouse's if filing joint return), bank routing and account number and the date for the withdrawal from the account (must be no later than due date or penalty and interest will accrue).
12. The previous five-year subtraction allowed for low and middle-income taxpayers that purchased homes in certain areas of MN in 1995-1998 will run out after the 2003 tax year.
13. As of 12/31/2002 there is no longer a minimum earned income floor on claiming the marriage penalty credit. The floor was tied to MN tax brackets in effect in 1999, when the credit was adopted. The previous income floor has been replaced with a formula, thereby making the floor unnecessary.
14. The standard deduction for married taxpayers was increased to adopt the 2003 changes to the federal tax code.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

15. Beginning in 2003 tax year, the maximum amount of qualified expenses for the child and dependent care credit has increased from \$2,400 to \$3,000 for one qualifying person and from \$4,800 to \$6,000 for two or more qualifying persons.
16. MN adopted the 2003 change to the federal tax code, which incorporates increasing the allowance for expensing of capital assets.
17. MN adopted the increased § 179 deduction threshold under the JGTRRA of 2003. The deduction is increased to \$100,000 and the phase-out starts at a total investment of \$400,000.
18. The MN Youth Works Post Service Program subtraction has been eliminated for 2003 tax year, since state funding for the program has expired.
19. Effective 1/1/2003, the urban homestead program subtraction has expired as such the subtraction has been eliminated.
20. Beginning after tax year 1/31/2003 the penalty for filing a frivolous return has increased from a flat \$500 to the greater of \$1,000 or 25% of the tax that should have been shown on the return.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

MISSISSIPPI

1. MS allows married individuals filing a joint return to split the authorized exemption and itemized or standard deduction between them in any manner so that they can take advantage of the lower rates.
2. MS exempts retirement income and social security income.
3. National Guard and Reserve pay for active or inactive duty training is excluded up to \$5,000 per taxpayer.
4. Sales of stock of MS domestic corporations, sale of interest in MS LLCs, LLPs and limited partnerships is exempt if held for more than one year. However, prior to non-recognition of the gain, to the extent depreciation and amortization of property and assets was taken, gain must be reported.
5. Federal itemized deductions are followed except that there is an addback of state tax deduction. In addition, MS standard deduction is lower than federal.
6. The 30% bonus depreciation provided under the JCWAA of 2002 and the 50% bonus depreciation provided under the JGTRRA of 2003 are not allowed in MS. As such, taxpayers will need to compute MS depreciation under the old MACRS rules in effect prior to federal changes. Due to this difference, a property's depreciable basis will generally be higher for MS than for federal tax purposes.
7. MS does not conform to the NOL provisions of the JCWAA of 2002. Carry back and carryover periods NOLs are back 2 years and forward 20 years.
8. Effective 1/1/2002, gaming winnings from MS casinos reportable to the IRS are not to be included as a part of income on an individual's MS income tax return. Additionally, losses incurred at MS casinos are not to be included as an itemized deduction when computing MS taxable income. This is because all reportable winnings are subject to a nonrefundable 3% tax. The 3% tax will be withheld at the casino level, and is considered a state income tax paid to MS. The document provided by the casino is considered the return and therefore is proof that the tax was paid to MS. However, gaming winnings from MS casinos, which are not reportable to the IRS, are reportable as MS taxable income to the extent such amounts exceed losses from MS casinos.
9. A taxpayer, regardless of the accounting method used, may not elect installment sales treatment in order to defer the recognition of income. However, the law does provide for a deferral of the tax payment provided the sale or other disposition of property is eligible for installment sales treatment for federal tax purposes and is in fact deferred for federal income tax purposes. If a taxpayer has not elected out of the installment method for federal tax purposes, the taxpayer will be considered to have made an election to defer the tax payment for state tax purposes. The taxpayer may elect out of the tax deferral by attaching a statement of such to the return in the period of the sale, recognizing all gain of any sales for the period, any paying all taxes, interest, penalties, and assessments for the period in question.
10. MS adopted the increased § 179 deduction under the JGTRRA of 2003. The deduction is increased to \$100,000 and the phase-out starts at a total investment of \$400,000.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

MISSOURI

1. Residents are individuals who are domiciled in the state. Nonresidents are subject to MO income tax on income derived from MO sources. Nonresidents have no permanent place of abode in MO, elsewhere and spend no more than 30 days in the state or who are not domiciled in the state but have a permanent place of abode in MO and spend no more than 183 days in the state. Part-year residents are treated as nonresidents but may determine their tax as if they were residents for the entire year.
2. MO starts with federal taxable income but add backs include bonus depreciation, interest on state and local governmental obligations (except MO) and NOLs.
2. MO avoids the marriage penalty by permitting spouses to apportion income. It is to your advantage to allocate as much income as possible to the spouse who did not have income from the state, in the case of a nonresident return, or to the spouse with the lower income, in the case of a resident return. Investment income from jointly owned property is divided equally.
4. Deductions from federal AGI include state income tax refunds, interest income from certain federal obligations such as U.S. Savings Bonds and U.S. Treasury Bills. This modification also applies to interest income from federal obligations passing through mutual funds. Be sure to attach federal interest 1099s and mutual fund year-end statements. Otherwise, MO will disallow the modification.
5. In calculating your MO itemized deductions, MO allows the deduction of Social Security and Medicare withholdings, Railroad Retirement tax, and self-employment tax (less the federal deduction of one-half the self-employment tax). A taxpayer cannot itemize on the MO return unless they itemized on the federal return. Because of this sizable deduction, it sometimes makes sense to itemize on the federal return even though they would normally claim the standard deduction.
6. MO allows a deduction for federal income tax reported on the federal return, including alternative minimum tax and excise taxes on retirement plan distributions. This deduction is limited to \$5,000 (\$10,000 for married filing jointly filers).
7. Nonresidents may reduce their MO source income by an allocable portion of federal adjustments, such as IRA and Keogh contributions and alimony paid.
8. Taxpayers amending MO returns should use the regular MO-1040 form for the year being amended. There is no MO-1040X form.
9. Investment income from jointly owned property is divided equally. However, income from a business venture would be allocated only if both persons were subject to self-employment taxes, or in the case of a loss, if both persons' names were registered for the business.
10. A taxpayer must decrease the itemized deductions by the proportional amount representing any income taxes imposed by MO, or another state of the US, or a political subdivision or Washington DC.
11. The amount of the 30% federal "bonus depreciation" deduction allowed under the JCWAA of 2002 must be added back to federal income for such assets purchased between 7/1/2002 and 6/30/2003; however, the 50% bonus depreciation enacted by the JGTRRA of 2003 is allowed.
12. MO does not provide a special tax rate for capital gains nor does it have a child care credit.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

MONTANA

1. Currently, the Dept. of Revenue allows considerable flexibility when allocating itemized deductions between spouses filing separately on a single form. Preparers should consider appropriate allocations that minimize the tax liabilities of married couples.
2. Taxpayers are allowed a deduction in arriving at MT AGI for all health insurance premiums paid by an employer if reported as income to an employee under federal law. Thus, insurance amounts included in the wages of 2% or greater S corporation shareholders reduce MT AGI.
3. Elderly taxpayers (62 years or older) are entitled to a refundable credit related to property taxes or rent paid if certain conditions are met.
4. MT allows an itemized deduction for 100% of the health insurance premiums and long term care insurance premiums paid by the taxpayer. The premiums deductible include those paid for the taxpayer, the taxpayer's dependents, and the taxpayer's parents and grandparents. The premiums are allowed without application of the percentage limitation on medical expenses.
5. MT allows an itemized deduction for federal income taxes paid (excluding self-employment tax) in arriving at taxable income.
6. MT residents may claim a credit for income taxes paid to another state or foreign country.
7. Nonresidents and part-year residents determine taxable income as if they are residents. To arrive at MT taxes, the tax on the total taxable income is prorated by the ratio that the MT income bears to the total income.
8. MT is not tied to the federal filing status. If both spouses have income it is usually advantageous to use the filing status "Married filing separate on the same form". If a married filing separately MT return and a married filing joint federal return is filed, there may be differences in taxable income for certain items. Specifically, allowable passive activity losses must be recomputed using the federal passive activity rules for married filing separate status. In addition, the deductible IRA for MT purposes may be less than the amount allowed on the federal return. The MT instructions include a worksheet to determine the deductible amount.
9. An exemption is allowed for the taxpayer, their spouse, and their dependents even if the dependent files and claims themselves.
10. Beginning with the tax year 1999, MT NOL is calculated using MT adjusted gross income instead of federal gross income.
11. In arriving at MT AGI, taxpayers are allowed a deduction for deposits made into a Medical Care Savings Account, Family Education Savings Account and a First Time Home Buyers Account. In each case the maximum deduction allowed per taxpayer is \$3,000 per year (\$6,000 if filing jointly or both spouses qualify).
12. Taxpayers are not required to submit a separate MT extension form. Taxpayers are granted an automatic extension of time to file their income tax return if, on or before the due date of the return they have applied with the Internal Revenue Service for a 4 month extension for their federal return and have paid by estimated payments 90% of their current year's MT liability or 100% of the previous year's.
13. Elderly taxpayers (65 or older) may exclude up to \$800 per taxpayer of interest income. Joint filers may exclude up to \$1600, even if only one spouse is over 65.
14. Individual taxpayers are allowed a credit for a percentage of the present value of a planned gift made during the tax year to a qualified MT endowment or for their proportionate share of a gift made by a pass-through entity. The credit may not exceed the tax liability and is non-refundable and may not be carried over. The value of the gift used in calculating the credit may not be claimed as an itemized contribution deduction on the MT return. For gifts by individuals or pass-through entities, a credit is 40% of the present value up to a maximum credit of \$10,000 per taxpayer for gifts made on or after 7/1/2003. For gifts made 1/1/2002 through 8/27/2002 the credit is also 40% up to a maximum credit of \$10,000. For gifts made 8/28/2002 through 6/30/2003 the credit is 30% up to a maximum credit of \$6,600.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

15. MT conforms to the bonus depreciation provisions of the federal JCWAA of 2002 and to the depreciation provisions of JGTRRA of 2003.
16. MT does not conform to the federal NOL rules. MT allows NOLs to be carried back three years and forward seven years.
17. Effective for tax year 2003, an income tax credit is allowed for certain costs associated with donations of land that are conservation sites under the MT Natural Heritage Program.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

NEBRASKA

1. If the taxpayer is subject to federal alternative minimum tax, lump sum distributions, or has paid tax on early distributions, the taxpayer may also be subject to NE minimum tax on these items.
2. NE residents may elect to deduct from their AGI capital gains on the sale of stock of a qualified corporation acquired while that corporation employed the taxpayer or as a result of the taxpayer's employment. This is a one-time election during their lifetime for stock of the one qualified corporation that can be used on all sales of that corporation's stock. A qualified corporation is a NE corporation that does business in the state for at least three years, with five or more shareholders. At least two of the shareholders or groups of shareholders must not be related to each other, and each shareholder or groups of shareholders must own at least 10% of the capital stock.
3. NE allows for the deduction of U.S. interest, including that derived from regulated investment companies (mutual funds).
4. NE allows for the exclusion of all non-NE S corporation and LLC income.
5. If the taxpayer has a refund from a prior year NE return shown as income on the federal return, the amount can be deducted on the NE return. If the taxpayer has no other adjustments increasing or decreasing its Federal AGI, it can deduct this amount on Line 13 of the Form 1040N (and check the box next to it), resulting in not having to attach Schedule 1 to their return.
6. If the client has a business, consider if Employment Expansion and Investment Incentive Act (LB 270, as amended by NE Laws 2003, LB 608) or Employment and Investment Growth Act (LB 775) credits have been earned and, if so, Form 3800N should be filed.
7. Railroad Tier 1 and Tier 2 benefits are allowed as a deduction decreasing federal AGI on the NE return.
8. Total NE tax liability is limited to the federal income tax liability unless there are adjustments increasing NE income of \$5000 or more. If federal income taxes are zero, check the box between line 4 and 5, attach a copy of page 1 and 2 of Form 1040 and do not complete Form 1040N line by line.
9. NE personal exemption credits are subject to an income phase out for higher income taxpayers.
10. If a credit for the elderly or disabled is claimed on the federal return, a nonrefundable NE credit in the same amount is allowed for resident returns.
11. Taxpayers must add back 85% of any bonus depreciation taken as a result of the JCWAA Act of 2002. However, taxpayers may be able to recoup some of the depreciation deduction in 2005. A similar rule applies to the new 50% bonus depreciation allowed under the federal JGTRRA of 2003. 100% of the § 179 depreciation in excess of \$25,000 also is required to be added back for tax years 2003 and after. These two addbacks can be recouped beginning in tax year 2006 (20% in tax year 2006 and 20% for each of the following 4 tax years).
12. NE does conform to the federal NOL provisions of the JCWAA of 2002.

NEVADA

1. NV does not impose an individual income tax.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

NEW HAMPSHIRE

1. Although no traditional income tax is imposed in NH, there is a tax on gross interest and dividends that exceed \$2,400 (\$4,800 for joint returns).
2. The tax on interest and dividends is imposed on each individual, and on each partnership, LLC, association, trust, (provided however, that entities with transferable shares are excluded), and on fiduciaries. Certain specified entities are exempted, and certain types of interest and dividends are not taxable.
3. Individuals are permitted \$1,200 cumulative exemptions for being over age 65, blind or disabled.
4. Where not all partners or members of a partnership or LLC are residents of NH, only the part of the partnership or LLC income as is proportionate to the aggregate interests of the NH residents in the partnership or LLC profits is taxed.
5. Where a partnership or LLC is taxed, the partners or members are not individually taxed on the income received from the partnership or LLC.
6. Where a NH resident is a member of a partnership or LLC having no usual place of business in NH, the resident partner or member is taxed on any part of the partnership or LLC income received by the resident partner or member which represents interest and dividends that would be taxable if received directly.
7. Subject to certain limitations, corporate dividends, joint stock company dividends, and dividends from partnerships, LLCs, associations, or trusts (having transferable shares), are taxable.
8. Single member LLCs must file form DP200 to receive a separate DOR number that is required in order to process the single member LLC's tax related documents.
9. Individuals conducting business in NH, who meet the filing requirements, must file a Proprietor Business Profits Tax Return.
10. NH does not conform to the bonus depreciation or NOL provisions of the federal JCWAA of 2002.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

NEW JERSEY

1. The NJ personal income tax is the Gross Income Tax (GIT). The GIT does not permit offset of losses from one category or basket, against income from any other category or basket, nor does it allow carrybacks or carryovers of losses.
2. With regard to a principal residence owned or rented in NJ, a taxpayer is allowed a property tax deduction or credit. The taxpayer claims whichever produces the greater benefit. 2004 legislation provides increased property tax relief benefits to New Jersey homeowners and tenants beginning with the rebates paid in 2004 for applications filed for tax year 2003. Visit the NJ Division of Taxation web page for detailed information.
3. Distributions paid by a mutual fund are immune from NJ GIT to the extent that they are attributable to interest earned on federal obligations. A portion of the distribution from a "NJ Qualified Investment Fund" may be exempt from GIT. By 2/15, shareholders should be notified by the NJ Qualified Investment Fund of the portion of their distribution that may be excluded from NJ income.
4. The GIT requires the inclusion of a pro-rata share of non-NJ S corporation income allocated outside of NJ on a resident return. When a resident is a shareholder in an out-of-state/ multi-state S corporation whose income is taxed at the corporate level in other states, no resident credit is permitted for such corporate taxes. To optimize NJ credits available to taxes paid to other jurisdictions, consider making an S election in other states where a profitable S corporation does business.
5. Under the GIT, there are particular areas of complexity and controversy involving income from partnerships and sole proprietorships. A January 1999 NJ Supreme Court decision represents a major reversal of the Division of Taxation's position and prior case law by affording an adjustment to federal basis for unutilized prior year losses upon the disposition of a partnership interest. Other cases address the deductibility of unreimbursed expense of partners and the netting of different line items on a federal Schedule K-1.
6. Historically, there has been some controversy regarding the treatment of Keogh plan payments made by a partnership. However, during 2002 the NJ Supreme Court held that such payments are not deductible for GIT purposes in determining a partner's distributive share of partnership income. This decision did not impact the deductibility of § 401(k) contributions.
7. Consider composite nonresident gross income tax returns for multiple nonresident members of partnerships or LLCs or shareholders in an S corporation deriving income from NJ sources.
8. For tax years beginning on or after 1/1/2002, certain entities classified as partnerships for federal income tax purposes with NJ source income and more than two partners are required to make a payment of a filing fee of \$150 for each owner, up to a maximum of \$250,000. In some cases, the fee may be apportioned for non-resident partners. The payment is due on or before the 15th day of the 4th month succeeding the close of the privilege period.
9. For tax years beginning on or after 1/1/2002, a partnership with NJ operations must withhold and remit a tax payment on behalf of certain non-resident corporate and noncorporate partners on or before the 15th day of the fourth month after the close of the partnership's year end. A partner in a partnership with NJ operations should review his or her NJK-1 to determine whether GIT was paid by a partnership on his or her behalf and claim credit for such payments on the partner's NJ 1040NR. The withholding tax is computed on the percentage of entire net income attributable to nonresident corporate and noncorporate partners. Entire net income for withholding tax purposes means distributive share of partnership income for Federal purposes plus tax exempt interest income as shown on the Federal K-1. The tax rate on entire net income attributable to nonresident noncorporate partners is 6.37%. In computing the withholding tax, a partnership may not claim a credit for estimated tax payments made by its respective partners. To calculate and remit the withholding tax, a partnership must use the corporate allocation rules (including throwout and double weighted sales factor) despite the fact that partners may not necessarily be corporations. There are exceptions from the withholding requirements for qualified investment partnerships, partnerships listed on a United States national stock exchange, and certain other partnerships. There are also exceptions from withholding for partners that participate in a composite income tax return filed by the partnership.
10. NJ adopted a state tuition plan under § 529(b) the NJ Better Education Savings Trust (NJ Best) program.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

11. 2004 legislation decouples the state's gross income tax from federal bonus depreciation provisions under § 168(k) and from provisions of the federal JGTRRA of 2003 that increase the maximum aggregate costs that a business may deduct as an expense under § 179. For income tax purposes, the amendments apply to property placed in service on or after 1/1/2004, for tax years beginning on or after 1/1/2004.
12. 2004 legislation increases the gross income tax rate for the highest-income taxpayers. It establishes an additional tier in the graduated gross income tax table for taxpayers with taxable income above \$500,000, providing that the portion of income exceeding \$500,000 is taxed at a rate of 8.97%.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

NEW MEXICO

1. Determine the proper treatment of partnership and S corporation income. The IRS apportions the income at the entity level, and NM carries the apportionment percentages through to the individual shareholders.
2. Individuals may be required to file a return in the year they move from the state.
3. Depending on income level, taxpayers who are 65 years old or more may be eligible for a deduction from taxable income of up to \$8,000 per taxpayer. Lower-income taxpayers may also qualify for a property tax rebate, even if they rent their primary residence.
4. Resident individuals can take a credit for taxes paid to another state, or allocate income to another state, but not both for the same income. Nonresident individuals cannot take the credit for taxes paid to another state, they must allocate and apportion their income.
5. Limited partners may be liable for NM tax if the business activity is located in NM.
6. NM has restrictive rules for what cannot be allocated out-of-state on individual returns for full-year residents.
7. Military personnel may need to file in NM if they derive income from NM, or if they were a NM resident at the time of enlistment and have not changed their state of residency. Spouses who accompany military personnel to NM must report as a resident, regardless of domicile, if they are physically present in NM for 185 days or more.
8. Beginning with the 1999 tax year, NM requires pass-through entities to file a NM income and information return for passthrough entities (Form PTE) and withhold and pay NM income tax for its nonresident owners. Nonresident owners may elect to file and pay their own NM income tax on their share of the entity's NM income by completing the NM nonresident owner income tax agreement. (Form PTE-TA)
9. The NM Tax and Revenue Department is tying Schedule C income to NM gross receipts tax reports.
10. A deduction is available for the greater of \$1,000 or 10% of a taxpayer's net capital gain reported and claimed on the federal return. This will increase in future years.
11. First year residents are not required to make estimated tax payments. Non-residents also are NOT required to make estimated payments in the first year in which they are required to file a NM income tax return.
12. NM has special rules that permit certain nonresidents to allocate income earned at business locations within 20 miles of an international border to their state of residence, including Mexico.
13. As of tax year 2003, persons physically present in NM for 185 days or more will be considered NM residents. This includes students and persons living in vacation homes. These statutory residents can claim applicable credits for taxes paid to other jurisdictions.
14. NM conforms to the bonus depreciation provisions of the federal JCWAA of 2002 and the changes made under the federal JGTRRA of 2003. However, NM does not conform to the NOL provisions of the Act.
15. Taxpayers may deduct certain unreimbursed medical expenses.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

NEW YORK

1. NYS/NYC allows a deduction for the first \$20,000 of qualifying pension and annuity income received by resident taxpayers over age 59½. Based on a Tax Appeals Tribunal (TAT) decisions in the *The Matter of Blue*, the pension exclusions does not apply to retirement benefits to resident partners that are paid directly from the partnership. However, an Administrative Law Judge (ALJ) decision in *The Matter of the Petition of Schein*, held contrary to the TAT decision and stated that the pension exclusion does apply to retirement benefits to resident partners that are paid directly by the partnership. However, the TAT overturned the ALJ's decision in *Schein* and held that the \$20,000 pension exclusion does not apply to retirement benefits to resident partners that are paid directly from the partnership.
2. NYS/NYC does not tax annuity payments received by nonresidents. Pension payments which do not qualify as annuities and are attributable to services performed in NYS/NYC, will be allocable to NYS/NYC.
3. The filing status used for federal purposes must be used for NYS/NYC purposes. If either the husband or wife is a resident and the other is a nonresident of NYS, they must file separate NYS personal income tax returns on separate Forms IT-201 or IT-203 regardless of whether they file a joint or separate federal income tax return. Both spouses may elect to file a joint NYS resident personal income tax return in which their joint NY taxable income is determined as if both were residents only if they meet the following criteria: (a) they file a joint federal income tax return for the same taxable year, and (b) each spouse maintained his or her status as a resident or nonresident during the entire taxable year. In the case of nonresidents filing a "married filing jointly" return, a nonresident spouse that has no NY source income cannot be required to sign the joint return and cannot be held liable for any tax, interest or penalties that may be due.
4. Nonresident individuals may allocate their wages based on the ratio of the number of days worked in NYS/C to the amount of total days worked everywhere. Days worked out of state only count if the work is done for the necessity of the employer and not the convenience of the employee.
5. An individual who is domiciled in NYS/NYC must file a NYS/NYC return unless: (a) the individual maintains no permanent place of abode in NYS/NYC and has a permanent place of abode outside NYS/NYC, and spends less than 30 days in NYS/NYC; or (b) the individual is present in a foreign country for 450 out of 548 consecutive days, the individual is not present in NYS/NYC and does not have a permanent place of abode in NYS/NYC for more than 90 days out of the 548 day period. Furthermore, the taxpayer's spouse and minor children may not spend more than 90 days in a permanent place of abode maintained by the taxpayer.
6. Non-domiciliaries of NYS/NYC must file a NYS/NYC resident return (Form IT-201) if they maintain a permanent place of abode for substantially all the taxable year in NYS/NYC and are present in NYS/NYC for more than 183 days during the taxable year.
7. Individuals changing their status from resident to nonresident or non-resident to resident must accrue special items of income, such as gains from installment sales, or else post a bond or other security for the amount of tax that would be due.
8. A NYC Unincorporated Business Tax (UBT) Return is required to be filed by any entity which carries on a business in NYC and has unincorporated business gross income of more than \$25,000 (\$75,000 for unincorporated businesses other than partnerships) or unincorporated business taxable income of more than \$15,000 (\$35,000 for unincorporated businesses other than partnerships).
9. NYS/NYC do not conform to the federal accelerated depreciation provisions, except with respect to qualified Resurgence Zone property and qualified NY Liberty Zone property.
10. 2003 NYC legislation requires certain flow-through entities to make estimated tax payments on behalf of their nonresident owners. Owners should determine whether they may claim a credit for taxes paid on their behalf by a flow-through entity.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

NORTH CAROLINA

1. Married nonresidents may not file jointly unless both spouses have income in NC. The spouse with the NC income must calculate his/her federal taxable income as a married person filing a separate federal return and use this as the starting point for the NC return.
2. If a taxpayer claims an education credit in lieu of a deduction, a deduction is allowed on the NC return for such expenses. If a taxpayer qualifies for a deduction of \$3,000 on the federal return but elects to take a credit of \$1,500 in lieu of the deduction, the taxpayer is allowed a full \$3,000 deduction on the NC return.
3. NC does not accept the federal extension. A NC extension, Form D-410, must be filed.
4. The NC return includes a standard deduction and personal exemption adjustment because the federal return allows a larger standard deduction than the state. The adjustment depends on the filing status and whether the taxpayer took the standard or itemized deduction on their federal return. See D-400 instructions for more details.
5. Nonresident partners and shareholders of S corporations may claim a credit for tax withheld as an "Other Tax Payment" on the return. They must include the information furnished by the partnership or S corporation with the return to verify the amount paid.
6. NC allows a deduction from federal taxable income for retirement benefits including IRA withdrawals. A person need not be retired to qualify for the deduction.
7. NC allows a credit for premiums paid for long-term care insurance.
8. NC did not adopt the federal treatment of depreciation under the JCWAA of 2002 and the JGTRRA of 2003. An addition to federal taxable income is required on the 2001 and 2002 state returns for 100% of the amount of bonus depreciation deducted on the federal returns. For 2003 and 2004, individuals are required to add to federal taxable income an amount equal to 70% of the additional first-year depreciation deducted on the federal return. Any amount of additional first-year depreciation added to federal tax income on the NC state returns may be deducted in five equal installments starting with the 2005 tax return.
9. NC will conform to the NOL provisions of the federal JCWAA of 2002 for individuals only. Individuals may file amended returns to reflect the carryback of NOLs from 2001 and 2002. The loss must be carried to the same year for NC as it was for federal purposes. After 2002, the carryback provision will be eliminated.
10. The sunset provision for the tax credit for qualified business investments, which was scheduled to expire for investments made on or after 1/1/2003 was extended to investments made on or after 1/1/2004.
11. The sunset provision for the temporary individual income tax rate of 8.25% was scheduled to expire for tax years beginning on or after 1/1/2004. This was amended to delay the sunset until 1/1/2006.
12. Form D-400EZ was discontinued as of 1/1/2002. All individuals must use Form D-400.
13. The tax credit for a dependent child for whom the taxpayer is allowed to claim a personal exemption was increased to \$75 in 2003 and \$100 for 2004. The age limit was changed to allow a credit on the NC return only to an individual who was allowed the credit on the federal return (under age 17 on the last day of the taxable year.)
14. For 2004, the standard deduction is increased to \$6,000 for married filing jointly and \$3,000 for married filing separately.
15. NC adopted the increased § 179 deduction threshold under the JGTRRA of 2003. The deduction is increased to \$100,000 and the phase-out starts at a total investment of \$400,000.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

NORTH DAKOTA

1. ND's two individual income tax forms (Form ND-1 and Form ND-2) represent two entirely different systems of computing an individual income tax that are governed by different statutory provisions. All individuals, whether residents or nonresidents of ND, may use the form on which the lowest tax is computed. Individual income taxpayers should consider computing their tax liability using both Forms to ensure that the Form generating the lowest amount of tax is filed.
2. A credit is available for long-term care insurance policy premiums only on Form ND-2.
3. Several exclusions are available for military compensation on Form ND-2 that are not available on Form ND-1.
4. Tax credits are allowed on Form ND-2 for contributions to ND nonprofit colleges and high schools.
5. A number of small business credits are available on both forms.
6. ND conforms to the bonus depreciation and NOL provisions of the federal JCWAA of 2002.
7. While taxpayers must generally use the same filing status (i.e., single, married filing jointly, etc.) for state purposes as used for federal income tax purposes, an important exception exist in the case of married persons who file a joint federal return and have different states of legal residence. If this exception applies, the married persons must file separately for state purposes and check the "married filing separately" filing status and they must complete and attach a special schedule (Schedule SF).
8. The Servicemembers Civil Relief Act (P.L. 108-189), signed into law in 12/2003, affects the tax calculation on Form ND-1. A line has been added to the 2004 ND-1 on which a subtraction adjustment may be claimed by nonresident individuals on active duty in the U.S. Armed Forces.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

OHIO

1. Resident credit for taxes paid to other state tax jurisdictions: Tax must have been paid in other state in the year the credit is being taken and income included in the AGI. In addition, the tax paid in other jurisdiction must be a state income tax (net worth, franchise, MI SBT taxes are all not considered as creditable taxes).
2. Nonresident tax credit: Methodology in calculating income earned within OH is based on a single weighted sales factor versus a 60% weighted sales factor for the corporate tax.
3. Consider utilization of a business income versus non-business income analysis in determining the methodology of situsing income.
4. Residency is determined based upon a bright line test of contact periods within OH during the tax year. Status is only an issue if during the tax year the taxpayer maintains more than one domicile.
5. The state filing status is determined based on the federal return filed. As a significant marriage penalty may exist, a state return should always be filed to determine the net tax benefit of filing joint versus separate returns.
6. Trusts are subject to income tax on undistributed earnings beginning in 2002. To the extent trusts are being used for OH individual tax planning, the planning should be re-evaluated in light of this change in the law.
7. SB261 was signed by the Governor on 6/5/2002, decoupling the OH business tax from federal law. Under the bill, taxpayers are required to add back 5/6 of the bonus depreciation deducted on federal income tax returns. The amount added back may be depreciated ratably over a 5 year period. SB261 is effective for taxable years ended on or after 6/5/2002. OH has recently issued an information release indicating that taxpayers with taxable years ending prior to 6/5/2002 will not be able to claim the bonus depreciation. An additional provision has been added to disallow the expanded § 179 deduction, 5/6 of which must be added back to income and deducted over the subsequent 5 years; similar to the bonus depreciation adjustment.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

OKLAHOMA

1. Social Security income is not taxable in OK.
2. Out-of-state income from real or tangible property or business income from another state is not taxable in OK. However, out-of-state losses must be added back to arrive at OK adjusted gross income.
3. Consider the OK interest income exclusion for interest from OK financial institutions or credit unions. (\$200 - joint, \$100 - single).
4. Consider the \$5,500 exclusion on certain retirement benefits for US and OK retired employees. Consider the \$5,500 exclusion for private retirement benefits, subject to certain income limitations.
5. Residents are allowed a deduction, up to \$20,000, for nonrecurring adoption expenses for tax years 2003 and after.
6. Consider the exclusions and credit available for OK agricultural production.
7. The underpayment penalty is computed if at least 70% of the current year's tax or 100% of the prior year's tax is not paid timely. This penalty is not applicable if the total OK tax liability for the year is less than \$1000.
8. OK allows a 22% oil and gas depletion allowance that is also applicable to lease bonuses.
9. OK allows special business incentive in the form of tax credits and/or accelerated deductions.
10. OK allows a deduction for political contributions up to \$100 (\$200 MFJ filing status).
11. For tax years beginning after 2000, the years to which NOLs may be carried forward or back are determined solely by reference to § 172.
12. In general, OK follows federal law with respect to depreciation, because federal taxable income is the starting point for determining OK taxable income. However, for income tax returns filed after 9/10/2001, corporations and fiduciaries must add back to federal taxable income 80% of the amount of any "bonus" depreciation received under the federal JCWAA of 2002 and JGTRRA of 2003 for assets placed in service after 9/10/2001 and prior to 12/31/2004. The amount of bonus depreciation described above is subtracted in later taxable years. 25% of the total amount added back is subtracted in the taxable year following the year of addition, and 25% is subtracted in each of the three succeeding taxable years. Individual returns are not subject to the add-back, and have adopted the federal bonus depreciation enhancement.
13. OK has a deduction for federal income taxes that relate to OK income.
14. OK individual return provides for the computation of use tax for items purchased for use in OK for which no OK sales tax was collected.
15. OK allows a deduction for wages added back to federal taxable income due to the Indian Employment Credit only. No such provision exists for wages disallowed on the federal return due to any other federal employment credit. These rules also apply to credits from pass-through entities.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

OREGON

1. Review how the credit for taxes paid to other states and the reverse credits apply.
2. Determine whether the taxpayer is qualified to take the special OR medical deduction.
3. Review the new OR deferral of reinvested gain, and determine what gains are subject to deferral, when that deferred gain is recognized, and qualified investments for the deferral.
4. A 1999 law change allows OR residents living abroad to be taxed as nonresidents. The law is retroactive to 1995. Accordingly, qualifying taxpayers that filed returns for tax year 1995 and later may qualify for refunds.
5. OR conforms to the bonus depreciation provisions of the federal JCWAA of 2002 and JGTRRA of 2003. OR does not conform to the NOL provisions of the Act.
6. OR will add back to taxable income a portion of the federal tax refund received for an amended return if allowed a federal deduction for a portion of the tax paid in prior years.
7. OR will allow certain taxpayers a deduction up to \$3,500 for their federal income tax liability in 2003.
8. OR will allow a deduction of up to \$2,000 for contributions to a § 529 plan.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

PENNSYLVANIA

1. Gains in one class of income cannot be offset with losses in another class of income.
2. Losses cannot be carried back or forward from year to year.
3. Employee contributions to retirement plans (e.g., § 401(k)) are not excluded from taxation.
4. Rules on the sale of a personal residence differ slightly from the federal rules. Check to see if the exclusion qualifications have been met.
5. The deductibility of employee educational expenses differs from the federal guidelines in that the education must be required by law or the employer to maintain position or job.
6. For the moving expense deduction, determine if the employer required or requested the move.
7. Taxpayers may deduct allowable meals and entertainment expenses at 100%.
8. The installment sales method of reporting income is permitted in PA (§ 301(l.1), Act of 3/4/1971, P.L. 6, [72 P.S. § 7301(l.1)]). Under this method, the gain from a sale of tangible personal property or real property may be deferred if at least one payment is received in a taxable year following the taxable year of the sale transaction. The gain may be allocated in equal proportions to the payments received and reported in the taxable years of receipt. The installment sales method is elective, and taxpayers not electing to utilize the installment sales method must report all gains on the sale in the year of the sale. Note that the installment sales method is not allowed for (a) reporting gains from the sale of intangible personal property; (b) transactions where the object is the lending of money or the rendering of services; or (c) sales where the taxpayer elects to exclude gain from the sale of a principal residence.
9. Determine if income items from any out-of-state partnership or S corporations were reported in the correct income classes on the return. In the absence of a PA Schedule K-1, the tax preparer must determine the appropriate classes of income.
10. Determine if a deduction for unreimbursed direct business expenses incurred by partners or S corporation shareholders is appropriate. These direct unreimbursed expenses must be required, and itemized on a separate statement with the PA return.
11. On a joint return, compute the gains/losses of each spouse separately because the gains of one spouse cannot be offset with the losses from the other spouse.
12. Determine if a "SP" tax credit for low-income taxpayers is appropriate. Part year and nonresidents are permitted to claim this credit but they must use gross and/or annualized income in determining their eligibility.
13. Be aware that the gain on the sale of assets acquired prior to 6/1/1971 should be prorated, with regard to stocks the taxpayers acquired before 6/1/1971, at a cost greater than their market value on that date, the Department of Revenue's use of 6/1/1971, market value as the taxpayers' basis in the stocks for personal income tax purposes resulted in taxation as income of benefits the taxpayers never received, and was therefore a misapplication of the 1974 amendment of a)(3) of the Tax Reform Code of 1971. Since "benefits" which were neither realized nor realizable were not income, their taxation as income would be absurd and unreasonable. Under a)(3), the basis of property acquired before 6/1/1971, was either value at acquisition or value as of 6/1/1971, whichever was greater. Also, gains realized on exempt obligations issued before 2/1/1994 are not taxable. (Exempt obligations generally include direct obligations of the U.S. Government or PA or its political subdivisions.)
14. PA does not tax personal employee use of employer owned or leased property. PA does not tax personal employee use of employer provided services, whether at no cost or reduced cost. PA taxes reimbursements for personal expenses such as dependent care and commuting.
15. PA does not conform to the federal NOL provision of the JCWAA of 2002. PA does not allow the 30% bonus depreciation deduction enacted by the JCWAA of 2002 or the 50% bonus depreciation deduction enacted by JGTRRA of 2003. Taxpayers must add back any federal bonus depreciation to PA taxable income. The taxpayer may then deduct an additional 3/7 of the federal depreciation deducted (not including the federal bonus depreciation) to adjust for the add-back. Personal income taxpayers must continue to calculate depreciation under the IRC, as amended to 1/1/1997. Required forms for purposes of calculating the adjustment are available on the PA department's website.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

16. Contributions to deductible IRA's for federal purposes are not deductible for PA. Distributions from an IRA, including a federal Roth IRA, are taxable to the extent the distribution exceeds your previously taxed contributions. Distributions you receive after retiring but before 59-1/2 are taxable even if you receive substantially equal payments, and you do not pay the federal penalty for any early withdrawal. PA law does not have any exception similar to the federal exceptions for withdrawal before age 59-1/2. However, distributions are not taxable if the payments are received, including lump sum distributions, on or after retirement, and after reaching the age of 59-1/2, or paid to the estate, or designated beneficiary, of the participant because of the participant's death.
17. Roth IRA rollover is not taxed on the difference between the amount distributed from your traditional IRA and your previously taxed contributions, if you rolled of the entire withdrawal directly from the traditional IRA to the Roth IRA, or within 60 days from the date you received the distribution.
18. PA law does not allow the federal elections that permit you to defer income to another taxable year or to report income that you will receive in a future year. Therefore you should review the tax accounting treatment of advance receipts, gains from like-kind exchanges, gains from involuntary conversions, and increases in income associated with § 481(a) spread adjustments.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

RHODE ISLAND

1. Nonresident partners should be aware that certain provisions of partnership agreements that decrease RI income or increase RI deductions will be disregarded.
2. RI has decoupled from federal tax liability as a base for determining the personal income tax.
3. An LLC taxed federally as a partnership/disregarded entity is subject to a fee in an amount equal to the corporate minimum tax (\$250). LLCs with nonresident members are required to file from RI-1120-SN (attach to return).
4. RI does not conform to the federal bonus depreciation provisions of the federal JCWAA of 2002 or the JGTRRA of 2003. Therefore, a separate schedule of depreciation must be kept for Rhode Island purposes. RI does not conform to the NOL provisions of the Act.
5. RI does not allow NOL carrybacks, only carryforwards.
6. RI does not allow the increased § 179 depreciation under the JGTRRA of 2003.
7. RI allows a modification decreasing federal adjusted gross income for contributions to RI tuition savings programs (i.e., “529 plans”). The maximum modification shall not exceed \$500, or \$1,000 if a joint return.
8. A credit against RI personal income tax is allowed for costs associated with alternative fueled vehicle purchases. The amount of the credit is equal to 50% of the incremental costs incurred for the purchase of an alternative fueled vehicle or conversion of a motor vehicle that can use alternative fuels. The credit is transferable in certain instances.
9. Effective 7/15/2003, 5% of the excess of the earned income credit against RI personal income tax is refundable. Taxpayers eligible for the federal earned income credit are entitled to a credit against RI personal income tax equal to 25% of the federal credit for tax years beginning after 2002.
10. Effective for tax years beginning after 2002, RI personal income tax provisions decouple from the increased federal exemptions provided under JGTRRA of 2003 for individuals computing alternative minimum tax (AMT).

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

SOUTH CAROLINA

1. SC allows a capital gain deduction equal to 44% of net capital gain recognized during the taxable year.
2. Determine the client's eligibility for various SC tax credits. Review form SC1040TC.
3. Part-year SC residents may calculate tax two ways: a) calculate tax as if the individual was a resident for the entire year on all income, and take credit for tax paid to other state, or b) compute SC tax as a nonresident individual except that SC taxable income for the period when a resident includes all items of income, gain, loss, and deductions that a resident must include. Use the calculation that produces less tax.
4. Schedule TC can be confusing if the other state does not follow same rules in calculating taxable income.
5. SC has a deduction for resident taxpayers age 65 or older, with a maximum \$15,000 deduction reduced by a retirement deduction claimed.
6. SC does not allow losses incurred from investments or rental property located outside of SC.
7. A NOL deduction is calculated the same as for federal tax purposes, except that all items of income and deductions used in arriving at the NOL are adjusted for SC purposes. Also, carrybacks are not allowed for SC purposes, and a federal election to carryback a NOL deduction will not affect the computation of the deduction for SC income tax purposes.
8. Taxpayers that claim the 30% bonus depreciation deduction must add back the difference between the amount computed on the federal return and the amount that would have been computed if the law had not changed. SC has not adopted the IRC provisions for computing depreciation deductions under the JGTRRA of 2003.
9. The 100% Safe Harbor Rule is modified to 100% of prior year tax for individuals with an adjusted gross income of more than \$150,000 as shown on the return for the preceding year.
10. Beginning for tax year 2002, non-resident taxpayers will be allowed to file electronically.
11. The federal deduction allowed for educator expenses must be added back for SC.

SOUTH DAKOTA

1. SD does not impose an individual income tax.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

TENNESSEE

1. TN has an individual interest and dividends tax. Dividends (including capital gain distributions) are taxable, but dividends from mutual funds that invest in U.S. Treasury instruments (not obligations such as GNMA) are not taxed in TN. There is a personal exemption of \$1,250 (\$2,500 if married filing jointly) against total taxable interest and dividend income. Interest from any bank or credit union is not taxable. Interest on demand notes is not taxed, but mortgage interest income is taxed.
2. Taxpayers should be aware that the interest and dividends tax applies to partnerships.
3. Income earned on non-TN 529 savings plans is subject to the TN income tax if it is interest on notes on bonds or dividends on stocks. The majority of investments in 529 plans are investments in mutual funds, which are considered “dividends on stock” and therefore taxable under TN income tax law.
4. TN does not conform to the bonus depreciation and NOL provisions of the federal JCWAA of 2002 or JGTRRA of 2003.

TEXAS

1. TX does not impose an individual income tax.

UTAH

1. UT has a deduction for adoption expenses. Deductions may be accrued and not necessarily taken in the year of adoption.
2. UT has a deduction for one-half of the federal tax liability.
3. UT has a deduction for retirement income.
4. UT has a health care insurance premium deduction.
5. UT has a deduction for premiums paid for long term care insurance.
6. UT conforms to the bonus depreciation provisions of the federal JCWAA of 2002 and to the depreciation provisions (50% bonus depreciation, increased § 179 deduction) of JGTRRA of 2003.
7. UT does not conform to the NOL provisions of the JCWAA of 2002.
8. Effective 1/1/2003, interest earned on non-UT government municipal bonds will be taxable, unless other state does not tax municipal bonds issued by UT.
9. Beginning in 2003, it is no longer necessary to attach copies of most credit forms to the UT return, but copies must still be retained.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

VERMONT

1. The VT income tax is imposed as a percentage of federal tax liability. Federal tax liability is subject to certain VT modifications.
2. Where estimated tax payments are not paid as required, a penalty is imposed at a rate of 2% per month up to 25%.
3. Where tax is not paid when required, a penalty is imposed at a rate of 5% per month of outstanding tax liability up to 25%.
4. The VT failure to file penalty is equal to 5% per month of outstanding tax liability up to a maximum of 25%.
5. Certain VT residents may qualify for a rebate of a portion of their property taxes. In such circumstances, a prebate can be obtained. A taxpayer that received a prebate of their rebate amount, which owes or is owed an adjustment includes such on their individual income tax return.
6. A required disclosure on a VT personal income tax return is the amount of real property taxes assessed by a municipality in VT on a dwelling owned and used by the taxpayer as the taxpayer's domicile and up to seven acres of land surrounding the dwelling. This land qualifies for the homestead property tax benefit.
7. For a domiciliary of another state deemed to be a resident of VT, income from intangibles not employed in a business, trade, or profession, is sourced to the taxpayer's state of domicile. VT will give the taxpayer a credit for tax paid on that income to the other state (but only if that state provides a similar credit).
8. S corporations, LLCs, partnerships, are liable for all VT income taxes, interest, and penalties, imposed on nonresident shareholders, members, and partners, with respect to income of the S corporation, LLC, or partnership.
9. S corporations, LLCs, and partnerships, are required to make VT estimated tax payments, including interest and penalties, of its nonresident shareholders, members, and partners, with respect to income of the S corporation, LLC, or partnership.
10. Entities not filing federally as C corporations, including partnerships, S corporations, and LLCs, must file an annual entity level return (VT Business Income Tax Return) and pay an annual entity tax of \$250.
11. VT does conform to the federal bonus depreciation provisions of the federal JCWAA of 2002 and the JGTRRA of 2003. VT also follows the new federal § 179 expensing provisions.
12. Effective for tax years beginning after 2003, a nonrefundable credit is available against VT personal income tax in the amount of 5% of the first \$2,000 per beneficiary contributed by a taxpayer in a tax year to a VT higher education investment plan account. If any distribution received from a higher education investment account is not excluded from gross income under § 529, a repayment of 5% of any such distribution made, up to a maximum of the total credits received, is required.
13. Dividends are considered ordinary income for VT tax purposes. The federal capital gains treatment of dividend income is not available for VT income tax purposes.
14. For the low-income child and dependent care credit, eligible taxpayers receive 50% of the Federal Child and Dependent Care Credit as a VT income tax credit instead of the 24% credit on Form IN-112.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

VIRGINIA

1. The credit for taxes paid to other states by resident individuals is limited to earned or business income, the gain on sale of a principal residence, and the gain from the sale of any capital asset not used in a trade or business and corporation income tax paid to another state (one that does not recognize the federal S corporation election), by an individual shareholder of an S corporation (must attach a statement from the S corporation). No credit is available for franchise, license, excise, unincorporated business or occupational taxes.
2. VA **may** not allow a credit for taxes paid to AZ, CA, OR, and DC (see tax return instructions). VA does not allow an o/s credit on the **resident** individual returns for these states. Instead, the taxpayer is to claim the credit on the nonresident return filed in those states. However, for the VA nonresident return, we allow the o/s credit only for AZ, CA, OR, and DC.
3. Individuals working out of their homes may be subject to local business, professional and occupational license taxes.
4. No partnership return required to be filed through taxable year 2003. However, for taxable year 2004 and forward partnerships must file the VA FORM 502, our new pass-through entity return.
5. The VA foreign source income subtraction includes certain passive types of income (interest, dividends, rents, royalties, etc.). The federal exclusion for foreign earned income is deducted in determining federal AGI, and thus allowed in determining the starting point for VA AGI. Generally, earned and business income does not qualify for the subtraction. However, an individual's share of net income attributable to a foreign source qualified business unit of an electing small business corporation would qualify for the foreign income subtraction. This subtraction was repealed for individual income tax with taxable year 2003 and forward.
6. If an individual itemizes deductions for federal purposes, he or she must itemize deductions for VA purposes. State and local income taxes deducted on the federal return must be added back to the VA return.
7. Part Year Residents: VA source income of a part year resident is determined on a cash basis. Thus, if a new VA resident receives distributions from a retirement plan, vacation or severance pay, or other types of income after moving to VA, such income is taxable in VA even though it may have been earned or accrued prior to moving to VA. A subtraction, however, is allowed for certain pension and retirement distributions when the contributions to such retirement plans in prior years were exempt from federal taxation but subject to taxation in another state.
8. VA conforms to IRC as of 12/31/2003, except for bonus depreciation and NOL. An NOL, in general, can be carried back 2 years in VA. If the IRS allows carry-back for more than 2 years, VA does not conform i.e., pro-forma fed returns should be created as if carried back 2 years. The actual and the pro-forma fed returns should then be attached to the amended returns.
9. Beginning in taxable year 2000, individuals may claim a subtraction for unemployment compensation benefits received during the year to the extent taxable pursuant to § 85.

WASHINGTON

1. WA does not impose an individual income tax.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

WEST VIRGINIA

1. Consider certain credits that may be available to WV non-corporate taxpayers (e.g., Military Incentive Credit, Qualified Rehabilitated Buildings Investment Credit, Capital Company Credit, Business Investment and Jobs Expansion Credit, etc.).
2. WV does not allow deductions for charitable contributions and home mortgage interest because it does not adopt federal itemized deductions.
3. Interest or dividend income on state and local bonds other than bonds from WV sources is not exempt from state tax.
4. Interest or dividends received on US or WV obligations includable in federal adjusted gross income are exempt from state tax.
5. Up to \$2,000 in benefits received from certain WV, federal, or military retirement systems may be exempt from state tax.
6. Refunds of state and local income taxes received and reported as income to the IRS may be exempt from state tax.
7. There may be deductions available for senior citizens (age 65 or older), individuals with disabilities, and surviving spouses.
8. A low-income earned income exclusion is available for taxpayers with federal adjusted gross income of \$10,000 or less.
9. WV does conform to the federal NOL and bonus depreciation provisions of the JCWAA of 2002. S.B.1008 and 1009, signed into law by the WV Governor on 4/2/2002, adopt for WV income tax purposes changes to federal law made after 2001 but before 3/15/2002, that affect the determination of federal income tax.

UNIQUE CONSIDERATIONS FOR STATE INDIVIDUAL TAX RETURNS

WISCONSIN

1. The Temporary Recycling Surcharge does not apply to an individual who has less than \$4,000 of gross receipts (review other exceptions as well). In addition, if an individual is subject to the surcharge, the minimum amount the individual should pay is \$25 (regardless of whether the calculation of the surcharge is less than \$25). The temporary recycling surcharge does not apply to 1999 taxable years that end after 4/1/1999. The temporary recycling surcharge was replaced with a permanent recycling surcharge for taxable years beginning on or after 1/1/2000. The new surcharge applies to individuals with \$4,000,000 or more gross receipts from a trade or business.
2. WI has not adopted the 50% exclusion provided under federal IRC § 1202.
3. WI limits combined net losses from those not activity engaged in farming if non-farm WI AGI is greater than \$55,000 (Married filing jointly).
4. Self-employed medical insurance may be 100% deductible for WI purposes. If the taxpayer is an employee whose employer did not contribute toward the cost of the medical care insurance they may deduct up to 50% of the amount paid for medical care insurance.
5. Taxpayers may have a different amount of social security benefits taxable for WI and federal purposes.
6. WI allows a 60% long-term capital gain exclusion but limits allowable net capital loss deductions to \$500 per year.
7. Unemployment compensation may be partially exempt if certain income thresholds are met.
8. Nonresident - Amounts received while a nonresident of WI from a nonqualified retirement plan or a nonqualified deferred compensation plan must be included in WI income to the extent attributable to personal services performed in WI unless distribution is paid out in annuity form over life expectancy of individual or a period of not less than 10 years, or distribution is paid in either an annuity or lump sum from arrangements known as “mirror” plans.
9. Nonresident - Any interest or dividends passed through from an S corporation on a WI 5K-1 must be included on the nonresident return (even though there is a general exception to not include any interest/dividends in WI income).
10. Sales and use tax due on out-of-state purchases is required to be reported on the income tax return.
11. WI allows a 100% exclusion for capital gains on certain small business stock to the original purchaser that was purchased at the time the business was incorporated.
12. WI does not conform to the federal bonus depreciation or NOL provisions of the JCWAA of 2002 or JGTRRA of 2003. In addition, WI does not follow the enhanced § 179 deductions. The limitation is \$25,000 for 2004.
13. There is an exclusion from income for the sale of assets used in a business or in farming if sold to a related person.
14. Itemized deductions that are passed through from an S corporation to a shareholder can be claimed as a subtraction modification instead of as an itemized deduction credit.
15. For WI AMT purposes the preference with regard to ISO's is taken into WI AMT at 80% of the federal preference adjustment. Therefore, separate tracking of the WI adjusted basis for AMT is necessary.
16. The credit for taxes paid to other states may need to be modified for WI purposes if you have capital gains that are taxed in another state.

WYOMING

1. WY does not impose an individual income tax.

NEXUS, MULTISTATE TAX AND STATE NET OPERATING LOSS ISSUES PRACTICE GUIDES

INTRODUCTION

This practice guide was developed by the AICPA State and Local Taxation Technical Resource Panel and related Task Forces to inform practitioners about state corporate income and franchise tax issues, such as **nexus, allocation and apportionment, and state net operating losses (NOL)**. This guide should be considered in connection with the checklist questions contained in the *AICPA State Corporation Income Tax Return Checklist* also included in this *AICPA Tax Practice Guides and Checklists* publication package. In addition, practitioners should refer to the *Unique Considerations for State Corporation Tax Returns* (also included in this *AICPA Tax Practice Guides and Checklists* publication package) for common problems and unique tax issues concerning each of the states' corporate state tax returns.

Below in this practice guide is a state tax nexus checklist that contains a list of the most frequently asked questions appearing in states' nexus questionnaires. Practitioners should be aware that the weight of interpretation given to specific questions might vary from state to state. However, the list can serve as a practice tool for practitioners in soliciting information from clients and analyzing such information. This guide is intended to be a broad reference tool. It can aid in addressing nexus, allocation and apportionment, and state NOL issues. It is not intended to answer the question of whether a specific company has nexus or certain tax obligations in a particular state. It should be noted that there are different nexus standards for the different types of taxes. The laws and policies of each state should be researched for application to each specific taxpayer's situation.

STATE TAX NEXUS EXPLANATION

The AICPA State and Local Taxation Technical Resource Panel has compiled a nexus guide including nexus checklist questionnaires utilized by the majority of states.

Nexus describes the amount and degree of business activity that must be present before a state can tax an entity's income. If a taxpayer has nexus in a particular state, the taxpayer must pay and collect/remit taxes in that state. In general, nexus is created for income tax purposes if an entity derives income from sources within the state, owns or leases property in the state, employs personnel engaged in various activities or has capital or property in the state. The amount of activity or connection that is necessary to create nexus is defined by state statute, case law and/or regulation and, consequently, tends to vary from state to state. However, Constitutional principles, the U.S. Supreme Court, judicial doctrine and federal law limit all states' abilities to impose taxes.

Briefly summarized below are: the federal statute governing "protected" activities within a state, relevant issues from three key U.S. Supreme Court cases concerning nexus, and recent activities of the Multistate Tax Commission (MTC) in this area.

1. Public Law 86-272 (15 U.S.C. §381)

Nexus for net income tax purposes is not established merely because sales of tangible personal property are solicited within the states. The states are prohibited under Public Law 86-272 from imposing a tax on or measured by net income when an entity's only connection with the state is the solicitation of orders for sales of tangible personal property, if such orders are accepted and shipped or delivered from outside the state. The Virginia Supreme Court ruled (January 1997) in the *National Private Truck Council* (480 S.E. 2d 500), case that the mere delivery in company-owned trucks, standing alone, does not establish nexus for income tax purposes because of the protection afforded by Public Law 86-272; rulings of at least one other state is contrary to the Virginia case and holds that delivery in company-owned vehicles is not protected by Public Law 86-272. During 2001, the Multistate Tax Commission amended its Statement of Information Concerning Practices of Multistate Tax Commission and Signatory States Under Public Law 86-272 by deleting the sentence that identified as an unprotected activity the shipment or delivery of goods into the state by means of a private or contract carrier.

STATE TAX NEXUS EXPLANATION

The immunity afforded by Public Law 86-272 does not apply to any corporation incorporated within the taxing state. This immunity only applies for state income tax purposes and, consequently, does not apply to such taxes as sales/use, gross receipts, net worth, etc.

Under Public Law 86-272, the only immunity accorded is for the solicitation of orders for the sale of tangible personal property. Thus, the solicitation for the sale of real property, intangible property, or services is not provided immunity under Public Law 86-272 and may cause a taxpayer to have nexus in a state where such solicitation occurs. The issue of “economic nexus” in the case of service providers and financial organizations with no physical presence has not yet been addressed by the U.S. Supreme Court.

For more information on the jurisdiction to tax, refer to State Taxation, by Jerome R. and Walter Hellerstein.

2. Physical Presence

Historically, cases brought before the U.S. Supreme Court relating to nexus involved factual situations in which the taxpayer had a degree of physical presence in the state seeking to impose its tax. In *Quill Corp. v. North Dakota*, 504 U.S. 298 (1992), the U.S. Supreme Court ruled that the Commerce Clause mandated that, absent action by the U.S. Congress to the contrary, a taxpayer must have some physical presence in a state to be subject to collection responsibility for the state’s use tax (*Quill* at 1914). Although *Quill* deals with use tax, the Court’s discussion of the general Due Process and Commerce Clause Constitutional principles of nexus opinion sheds some light on their application to franchise and income taxes. Nevertheless, some state officials believe that the nexus standard for income tax purposes is a lower threshold than for sales/use tax purposes; and thus believe that physical presence is not required before an income-based tax can be imposed.

The Commerce and Due Process Clauses are generally considered to be the primary constitutional limitations on state taxation. The Commerce Clause provides that “Congress shall have the power to regulate Commerce with foreign Nations, and among the several states, and with the Indian tribes.” The Commerce Clause has been interpreted as not only conferring power on the national government to regulate commerce but also as limiting the states’ powers to interfere with commerce.

An analysis of whether a tax violates the Commerce Clause involves application of the four prong test delineated in *Complete Auto Transit v. Brady*, 430 U.S. 274 (1977). Under this test, the activities taxed must: (1) have a substantial nexus with the taxing state; (2) the tax must be fairly apportioned; (3) the tax must not discriminate against interstate commerce; and (4) the tax must be related fairly to the services provided by the state.

The Due Process Clause prohibits states from denying any person “life, liberty, or property, without due process of law.” Due process protects against unfair governmental interference or taking of property. A state whose laws provide protection, security, and opportunities to individuals, property, and business may exact a toll in the form of taxes to support the government but not without due process of law. The Due Process Clause, requires that “there is a minimal connection or nexus between the interstate activities and the taxing state, and a rational relationship between the income attributed to the state and the intrastate values of the enterprise.” *Hunt-Wesson, Inc. v. Franchise Tax Board*, 528 U.S. 458, 464 (2000).

The South Carolina Supreme Court, in *Geoffrey, Inc. v. South Carolina Tax Commission*, 437 S.E.2d 13 (S.C. 1993) held that a Delaware holding company that owned only intangible property used in South Carolina was subject to income tax. The court rejected Geoffrey’s claim that it had not purposefully directed its activities toward South Carolina’s economic forum and held that by licensing intangibles for use in the state and receiving income in exchange for their use, Geoffrey had the minimum connection and substantial nexus with South Carolina required by the Due Process Clause and the Commerce Clause of the U.S. Constitution. In addition, Geoffrey’s receivables were found to have a business situs in South Carolina. The U.S. Supreme Court subsequently denied certiorari in *Geoffrey* (510 U.S. 992 (1993)), making the case applicable only in the state of South Carolina. Many states, however, have incorporated through statute or regulation the principles of economic nexus outlined in *Geoffrey*

STATE TAX NEXUS EXPLANATION

regarding intangibles in the nature of trademarks and trade names. When litigated, the state's efforts to tax intangible holding companies have been met with mixed results (e.g., the New Jersey Tax Court held for the taxpayer in *Lanco, Inc.*, Dkt No. 00539-97, Oct. 23, 2003, which is on appeal; in contrast, Maryland's highest court held against the taxpayers in the combined cases of *Comptroller of the Treasury v. SYL Inc.* and *Comptroller of the Treasury v. Crown Cork & Seal Co. (Delaware) Inc.*, 375 Md. 78, 825 A.2d 399 (2003).)

In a more recent case involving a captive trademark subsidiary, the New Mexico Court of Appeals held that Kmart Properties, Inc. (KPI) was subject to franchise and gross receipts taxes (*Kmart Properties, Inc. v. Taxation and Revenue Department*, Dkt. No. 21, 140 (2001), on appeal to the NM Supreme Court). KPI, a Kmart subsidiary, owned trademarks and tradenames and licensed them to Kmart retail locations doing business in the state. During the investigation, the NM Taxation and Revenue Department (T&R Department) requested and received memoranda explaining how to set up a trademark company, how to operate it and the expected state tax savings. The trademark company generally operated with independent substance as a separate company: it moved into a separate building in Michigan; it employed 5 employees who were transferred from Kmart Corporation including two intellectual property lawyers and support staff. There were executed loan documents between Kmart and the trademark company (however, the loan documents provided for loans up to \$500 million, much lower than the outstanding balance).

Following the logic of the T&R Department, the court relied on trademark laws, which provide that trademarks cannot be separated from goodwill; in essence, a trademark has no value (or would be considered abandoned) unless it is maintained by an ongoing business. The court compared goodwill and its trademark symbol to Siamese twins who cannot be separated with death to both. The court also looked at the licensing requirements under trademark law, which require a licensor to maintain, control and protect a trademark. It found that there was a substantive identity between KPI and Kmart, based on a direct correlation between Kmart's use of KPI's trademarks in New Mexico to promote sales and enhance its sales revenues and the revenues KPI receives as royalties (calculated as a percentage of those New Mexico sales). It further found that the Uniform Division of Income for Tax Purposes Act's (UDITPA's) three-factor formula did not fairly represent KPI's business activity in New Mexico, because its only business activity in the state is the licensing of its trademarks for use there. In addition, the Court upheld the gross receipts tax assessment on KPI's royalty income in New Mexico, finding that payment of the royalties is a condition of the sale and is the consideration for the sale to the extent the sale occurs in the state.

In contrast to the *Geoffrey* and *KPI* decisions, J.C. Penney National Bank (JCPNB) won its economic nexus case. In *J.C. Penney Nat'l Bank v. Ruth Johnson, Comm'r of Rev., State of Tenn.*, 19 S.W. 3d 831 (12/17/99), the Tennessee Court of Appeals reversed a chancery court decision and held that JCPNB did not have substantial nexus with the state. In so doing, the court rejected as not "constitutionally significant" the chancery court's finding that the taxpayer's 11,000 to 17,000 credit cards in Tennessee constituted a physical presence. The court also rejected the chancery court's findings that the unaffiliated retail stores operated by JCPNB's parent gave JCPNB physical presence in Tennessee. The state supreme court denied permission to appeal; the U.S. Supreme Court denied the state's writ of certiorari. 531 U.S. 927 (2000).

Practitioners with clients licensing or using in states where the client does not otherwise have a physical presence should review any recent changes in the applicable state laws and regulations in this area.

3. Solicitation

Under Public Law 86-272 (15 U.S.C. §381), an activity is immune from net income taxation if it consists merely of solicitation of sales of tangible personal property. The term "solicitation" is not defined by Public Law 86-272, however, the U.S. Supreme Court in *Wisconsin Dept. of Rev. v. William Wrigley, Jr. Co.*, 112 S. Ct. 2447 (1992) (Wrigley) interpreted this term. In finding that Wrigley's activities in Wisconsin exceeded the protection of Public Law 86-272, the Court held that the solicitation of orders includes "any explicit verbal request for orders and any speech or conduct that implicitly invites an order."

STATE TAX NEXUS EXPLANATION

The clear line is the one between those activities that serve no independent business function apart from their connection to the soliciting of orders and those that the company would have reason to engage in anyway but chooses to perform through its in-state sales force. The Court affirmed the *de minimis* principle of Public Law 86-272 in holding that to lose the immunity afforded by Public Law 86-272 the activity must establish a nontrivial additional connection with the taxing state. In the aggregate, though minimal in comparison to Wrigley's total solicitation activities in the state, the non-immune activities exceeded the *de minimis* standard in the aggregate. Practitioners should consider whether activities other than solicitation are more than *de minimis* in a particular state.

4. Multistate Tax Commission (MTC) Guidance to the States

The MTC has issued lengthy guidance under Public Law 86-272 including a list of activities that it considers protected under the public law and a list of unprotected activities that will cause sales to lose their protection under the Public Law. A copy of the MTC Statement of Information Concerning Practices of the MTC and Signatory States Under Public Law 86-272 can be found on the MTC's web page at: www.mtc.gov.

Working together through the MTC, twenty-six states issued Nexus Program Bulletin 95-1 (12/20/95) targeting the computer direct marketing industry. The bulletin takes the position that because in-state repair services are not immune from taxation by reason of P.L. 86-272, the use of independent contractors or other representatives of a computer company to provide such repair services creates nexus for the computer company. Although the nature of the bulletin is informative and educational rather than regulatory, it has met much opposition from industry and mixed reaction from the states. In fact, California has rejected the bulletin as a policy statement. The California State Board of Equalization (BOE) voted on March 14, 1996 to rescind California's inclusion on the list of 26 states that have adopted MTC Bulletin 95-1.

Through its National Nexus Program, the MTC also assists businesses involved in multistate commerce in voluntarily resolving potential state sales/use and income/franchise tax liabilities where nexus is the central issue. The program acts as a coordinator through which companies may approach 40 member states (AL, AK, AZ, AR, CA, CO, CT, DC, FL, HI, ID, IA, KS, KY, LA, ME, MD, MA, MI, MN, MO, MT, NE, NH, NJ, NC, ND, OH, OK, OR, RI, SC, SD, TX, UT, WA, WV, WI, WY) anonymously and seek resolution of potential liabilities arising from past activities. It is the strict policy of the National Nexus Program member states and the MTC that they will not reveal the identity of a taxpayer to any state that does not accept the voluntary disclosure agreement. For further information on this program, refer to the AICPA *State Tax Nexus Checklist/Practice Guide*, or contact the MTC at 202-508-3800. We note that experience has shown that in some cases taxpayers may be able to negotiate a better arrangement directly with individual states; however, the time and/or cost of doing so may exceed the benefit of negotiating with each individual state.

Conclusion

The issue of nexus for sales/use and for income tax purposes is a complex one and there is a tremendous degree of inconsistency among the states. The large number of court cases in this area highlights the fact that the Due Process and Commerce Clause analysis is largely dependent on the specific facts and circumstances of each case. Among the state court systems, emerging issues, such as agency nexus, affiliate nexus, electronic nexus, and economic nexus, evolve in the ever-changing market place. This guide is meant as a broad reference tool in highlighting those areas that the individual states have deemed to create nexus within the state for purposes of subjecting the entity to taxation in the state.

STATE TAX NEXUS CHECKLIST - FREQUENTLY ASKED QUESTIONS
ON STATE NEXUS QUESTIONAIRES

	<u>YES</u>	<u>NO</u>	<u>COMMENTS OR EXPLANATION</u>
1) Is the business qualified to do business in the state?	_____	_____	_____
2) Is the business currently filing any tax returns with the state (specify type of tax)?	_____	_____	_____
3) Has the business previously filed income tax returns in the state?	_____	_____	_____
4) Does the business have an office, agency, warehouse, or other business location owned or leased in the state?	_____	_____	_____
5) Does the business maintain a telephone answering service in the state?	_____	_____	_____
6) Does the business perform construction contracts in the state?	_____	_____	_____
7) Does the business own or lease real property in the state?	_____	_____	_____
8) Does the business own or lease tangible personal property located in the state?	_____	_____	_____
9) Does the business rent or lease tangible personal property to others who then use the property in the state?	_____	_____	_____
10) Does the business license intangible property such as patents, trademarks, tradenames, etc. for use in the state?	_____	_____	_____
11) Does the business license software for use in the state?	_____	_____	_____
12) Has the business ever executed contracts in the state?	_____	_____	_____
13) Does the business have employees or representatives who perform any of the following activities in the state:			
a) Solicit orders with or without authority to approve?	_____	_____	_____
b) Engage in managerial or research activities?	_____	_____	_____
c) Secure deposits on sales?	_____	_____	_____
d) Make collections on regular or delinquent accounts?	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>COMMENTS OR EXPLANATION</u>
e) Repossess items or property of the business?	_____	_____	_____
f) Offer technical assistance and training to purchasers of its products before or after the sale?	_____	_____	_____
g) Repair, service, or replace faulty or damaged goods?	_____	_____	_____
h) Install or assemble its products?	_____	_____	_____
i) Inspect the installations of the business products by its customers or users of its products?	_____	_____	_____
j) Pick up or verify destruction or damaged or returned merchandise from customers or users of the business products?	_____	_____	_____
k) Coordinate delivery of merchandise, whether or not special promotions are involved?	_____	_____	_____
l) Distribute replacement parts?	_____	_____	_____
m) Conduct credit investigations or arrange for credit and financing for purchasers of its products?	_____	_____	_____
n) Rectify or assist in rectifying any product, credit, shipping or similar complaint arising from the purchase or use of its products?	_____	_____	_____
o) Service or maintain displays of its products?	_____	_____	_____
p) Accept returned merchandise for customers?	_____	_____	_____
q) Selling of tangible personal property?	_____	_____	_____
r) Make "on the spot" sales of company products?	_____	_____	_____
s) Carry out engineering or design functions?	_____	_____	_____
t) Check the inventory of customers, advise customers or distributors as to minimum inventory levels; remove obsolete, damaged or outdated goods?	_____	_____	_____
u) Process complaints?	_____	_____	_____
v) Investigate, recommend, or appoint potential dealers, agents, or distributors of the company in the state?	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>COMMENTS OR EXPLANATION</u>
14) Does the business have a standard form of written agreement with sales representatives? If so, please enclose a copy.	_____	_____	_____
15) If the business a member of an affiliated group of corporations does the business file:			
a) A consolidated return in the state?	_____	_____	_____
b) A combined return for a unitary business group in the state?	_____	_____	_____
16) Does the business have display merchandise in leased space in the state?	_____	_____	_____
17) Do employees have samples in the state? If yes, then state the average value thereof.	_____	_____	_____
18) Does the business reserve the right of inspection of the customer's facilities or products after delivery?	_____	_____	_____
19) Does the business provide sales or service manuals to customers, distributors, or agents?	_____	_____	_____
20) Does the business advertise in the state? If so, list the different advertising media used.	_____	_____	_____
21) Does the business do any localized advertising (cooperative or otherwise) in the state?	_____	_____	_____
22) Does the business have any employees or representatives who use their home in state:			
a) As a business address?	_____	_____	_____
b) To receive business callers?	_____	_____	_____
c) To store inventory?	_____	_____	_____
d) To maintain books/records?	_____	_____	_____
e) To maintain company property?	_____	_____	_____
23) Are employees reimbursed for telephone, fax or utilities expenses?	_____	_____	_____
24) Are home numbers listed in local advertisements of the business?	_____	_____	_____

	<u>YES</u>	<u>NO</u>	<u>COMMENTS OR EXPLANATION</u>
25) Do employees of the company solicit orders for the sale of:			
a) Real estate?	_____	_____	_____
b) Services?	_____	_____	_____
c) Intangible property?	_____	_____	_____
26) Is the business listed in any telephone directories in the state?	_____	_____	_____
27) Does the business have any consigned stock of goods in the state?	_____	_____	_____
28) Does the business operate a mobile store in the state?	_____	_____	_____
29) Does the business maintain a security interest/mortgage in property until the contract price or amount borrowed has been paid?	_____	_____	_____
30) Does the business have agents or independent contractors selling products in the state? If so, are they forbidden from selling or promoting competitors' services?	_____	_____	_____
31) Does the business give approval to servicing distributors and dealers within the state where customers can have products serviced or repaired?	_____	_____	_____
32) Does the business own an interest in a pass-through entity that has operations, conducts business, or owns real property in the state?	_____	_____	_____

MULTISTATE TAX ISSUES - EXPLANATION

There are three methods of dividing the income tax base of a multistate corporation among the states in which it is taxable: (1) separate accounting, (2) specific allocation, and (3) formulary apportionment.

1. SEPARATE ACCOUNTING

Under the separate accounting method, the activities of a corporation within a state are considered separate and distinct from those outside the state. The corporation attempts to source each item of revenue and expense to the state where it was generated.

Because it has several major weaknesses, separate geographical accounting in the state tax area (once the preferable method for determining the income of a corporation) is now used only in limited instances. Its primary weaknesses are the lack of accuracy and ease of manipulation.

2. SPECIFIC ALLOCATION

Under the specific allocation method, certain types of income are traced to their source or other connection with a state and attributed solely to that state. Other types of income are apportioned (or divided) among the states where the corporation is doing business. In most states, income that is classified as nonbusiness is specifically allocated and income that is classified as business is subject to apportionment. A few states have identified certain types of income that are treated as allocable and the taxpayers remaining net income is then apportioned among the states with which the taxpayer has nexus.

A. Business v. Nonbusiness Income

The distinction between business and nonbusiness income is significant because while nonbusiness income is allocable to a specific state (typically either the taxpayer's state of commercial domicile or the situs of the property), business income will be subject to apportionment and will be divided among the states in which the multistate taxpayer does business based on a mathematical apportionment formula.

The three main methods used to determine whether income is business or nonbusiness are:

- 1) Uniform Division of Income For Tax Purposes Act (UDITPA) Definitions of Business and Nonbusiness Income;
- 2) MTC Regulations (when adopted by a state); and
- 3) United States Supreme Court cases.

Due to a lack of uniformity among the states apportionment provisions, the specific laws of each jurisdiction in question should be consulted.

1) UDITPA Definitions of Business and Nonbusiness Income

Under UDITPA, business income is defined as income that arises from transactions and activities in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. UDITPA §1(a). UDITPA defines nonbusiness income as all income *other than* business income. UDITPA §1(e).

Many states interpret the UDITPA definition of business income as incorporating two tests for determining whether income is business income. The tests are referred to as the "transactional test" and the "functional test." Most states take the position that if income is classified as business income under *either* test, the income will be classified as business income. However, the courts of several states have interpreted the UDITPA language as requiring both tests be satisfied in order to classify income as business income.

MULTISTATE TAX ISSUES – EXPLANATION

a. Transactional Test

Under the transactional test, income is considered business income if it arises from “transactions and activities in the regular course of the taxpayer’s trade or business.” The focus is on the *type of transaction* giving rise to the income, and how the transaction relates to the taxpayer’s regular trade or business.

Example: The sale of a factory by a manufacturer normally would be considered unusual, extraordinary, and occurring outside the normal course of business. As such, the gain would be considered nonbusiness income under the transactional test.

b. Functional Test

Under the functional test, income is considered business income if the acquisition, management, and disposition of the asset that generates the income constitute integral parts of the taxpayer’s regular trade or business operations. The functional test focuses on the *relationship* between the asset giving rise to the taxable income and the business itself.

Example: Gain or loss on the sale of a factory by a manufacturer likely would be considered business income under the functional test because the factory was acquired and used in the taxpayer’s regular trade or business.

2) MTC Regulations

Under the Multistate Tax Commission (MTC) regulations, which interpret UDITPA, there is a presumption in favor of classifying income as business income. According to the MTC regulations, “an item of income is nonbusiness income only if it does not meet the definitional requirements for being classified as business income.” MTC Reg. §IV.1. (a). The following are examples of business income under the MTC Regulations:

- Rents received from property “used” in or “incidental [to]” the taxpayer’s trade or business and includable in the property factor.
- Gains and losses from dispositions of real or personal property if the property was used in the taxpayer’s trade or business or was otherwise included in the property factor.
- Interest, if the intangible generating the interest is used or arose from the trade or business or where the purpose for acquiring and holding the intangible is an integral, functional, or operative component of the trade or business operations, or otherwise materially contributes to the production of business income of the trade or business operations.
- Dividends, if the stock arose out of or was acquired in the regular course of the taxpayer’s trade or business operations or where the acquiring and holding of the stock is an integral, functional, or operative component of the trade or business operations, or otherwise materially contributes to the production of business income of the trade or business operations.
- Patent and copyright royalties are business income if the patent or copyright arose out of or was created in the regular course of the taxpayer’s trade or business operations or where the acquiring and holding the patent or copyright is an integral, functional, or operative component of the trade or business operations, or otherwise materially contributes to the production of business income of the trade or business operations.

MULTISTATE TAX ISSUES – EXPLANATION

3) The United States Supreme Court

In addition to the rules under UDITPA and the MTC regulations, the U.S. Supreme Court has adopted another test to determine whether income is subject to apportionment.

In *Allied-Signal, Inc. v. Director, Division of Taxation*, 504 U.S. 768 (1992), the Court held that only income from the taxpayer's unitary business is apportionable income. If the taxpayer's activities and properties are part of a unitary business, income from such activity or property is considered to be derived from the regular course of the taxpayer's trade or business and is deemed to be apportionable income. Income that is unrelated to the taxpayer's unitary business is considered to be income subject to allocation.

However, while affirming the unitary test for determining whether income is apportionable, the Court held that it is not the exclusive means of meeting the constitutional requirements for apportioning income.

The Court introduced the operational versus investment function test. Under this test, a transaction or activity may create apportionable income if it serves an operational, rather than an investment, function. By way of example, the Court pointed out that interest earned by a corporation on short-term bank deposits used as working capital may be apportionable even though the bank and corporation are not engaged in a unitary business. Likewise, income received from stock of a company held by a corporation to ensure a steady supply of raw materials for the corporation's production process would presumably constitute apportionable income even if the supplier was not part of the taxpayer's unitary business. Similarly, income from stock investments that constitute interim uses of idle funds accumulated for future business operations would apparently constitute apportionable income.

As in *ASARCO v. Idaho State Tax Comm'n*, 458 U.S. 307 (1982), the Court rejected a "business purpose" test, stating that the mere fact that an intangible asset was acquired pursuant to a long-term corporate strategy of acquisitions and dispositions does not convert an otherwise passive investment into an operational function.

B. Allocation of Nonbusiness Income

Once income has been classified as nonbusiness, the next step is determining to which state it is allocated. Generally, the income is sourced to the state in which the property is located (for tangible assets) or to the taxpayer's commercial domicile (for intangible assets).

1) Commercial Domicile

Depending on the taxpayer, the identification of a taxpayer's state of commercial domicile can be a very simple or a more complex process. Under UDITPA §1(b), commercial domicile is defined as the "principal place from which the trade or business of the taxpayer is directed or managed." The criteria that are typically used to determine the commercial domicile of a taxpayer include:

- Site of board of directors' meetings;
- Location of stockholder meetings;
- Location and residence of the officers; and
- Location of corporate records and bank accounts, etc.

Although many states apportion business income and allocate nonbusiness income, not all states follow this practice. Some states specifically allocate only specified types of income (e.g., interest, dividends, rents, royalties) and others apportion all types of income except that on which the state is prohibited under the U.S. Constitution from imposing tax - See *Allied Signal*.

MULTISTATE TAX ISSUES – EXPLANATION

3. FORMULARY APPORTIONMENT

As indicated above, certain states apportion income that is classified as “business” income. However, according to the U.S. Supreme Court, the Constitution requires that formulary apportionment be applied only to the income of a unitary business. As the Court states, “[t]he linchpin of apportionability in the field of state taxation is the unitary business principle.” *Mobil Oil Corp. v. Commissioner of Taxes*, 445 U.S. 425 (1980).

A. Unitary Business

A number of requirements for determining the scope of a unitary business have developed. In addition to Supreme Court decisions addressing unitary business principles, the following tests devised at the state level have gained widespread applicability: (1) the three unities test, (2) the contribution and dependency test, and (3) the factors of profitability test. There may also be “unitary” implication for a single corporate entity in addition to “unitary” implications in relation to a unitary group of affiliated corporations.

1) Three Unities Test

The three unities approach was developed in the California case *Butler Brothers v. McColgan*, 111 P.2d 334, 341 (1941), and provides that analytically “the unitary nature of a business is definitely established by the presence of the following circumstances: (1) unity of ownership; (2) unity of operation as evidenced by central purchasing, advertising, accounting, and management divisions; and (3) unity of use in its central executive force and general system of operation.”

Unity of ownership refers to a common ownership structure of a business and its affiliates. Although the resolution of this test depends in large part on the particular provisions of each states’ law, as a general rule, there must be greater than 50 percent stock ownership before a group of businesses satisfy the unity of ownership requirement.

Unity of operation is evidenced by centralized support functions such as:

- Corporate accounting;
- Legal;
- Personnel;
- Purchasing;
- Advertising;
- Selling; and
- Research and development, or other like departments.

Unity of use is apparently shown by a central executive force, and a general system of operations. Although unity of use appears to require executive direction to achieve corporate goals, it is not clear as to what extent control must be exercised by the central executive force.

Although it is hard to differentiate between the unity of operation and unity of use tests, one California decision, *Chase Brass & Copper Co. v. Franchise Tax Board*, 10 Cal. App. 3d 496 (1970), attempted to reconcile the two tests. According to the decision, the unity of operation test refers to the personnel of an organization who furnish auxiliary and advisory services and do not directly participate in production. The unity of use test refers to the personnel who are directly responsible for manufacturing and assembling functions in the various stages of production.

MULTISTATE TAX ISSUES – EXPLANATION

2) Contribution and Dependency Test

The contribution and dependency approach was set forth in *Edison California Stores v. McColgan*, 183 P.2d 16 (1947). The California Supreme Court stated that where “the operation of the portion of the business done within the state is dependent upon or contributes to the operation of the business without the state, the operations are unitary,” 183 P.2d at 24-25.

This test is the one most widely used in determining whether a unitary business exists. Although it does not suffer from the narrow scope of the three unities test, its breadth is also the test’s primary weakness because of its inability to identify what elements are important in making a unitary determination.

If any element of operational interdependence, however insubstantial, were sufficient to create a unitary business, then apparently any commonly controlled businesses would constitute a unitary business (*e.g.*, due to common accounting and reporting systems, common officers, common insurance plans) under this test. Thus, for the unitary business concept to have any meaning, some weight apparently must be given to the substantiality of the interdependence.

3) Multistate Tax Commission Guidance

The Multistate Tax Commission (MTC) has issued guidance on whether the activities of a taxpayer are to be regarded as a single trade or business or separate trades or businesses and, although the regulations speak of the operations of one taxpayer, many states have chosen to apply the rules across legal entities.

According to MTC Reg. §IV.1. (b), any of the following factors creates a strong presumption that the activities of the taxpayer constitute a unitary business:

- Same type of business;
- Steps in a vertical process; and
- Strong centralized management.

Due to the lack of uniformity in this area, specific state law should be consulted.

4) Factors of Profitability Test

In *Mobil Oil Corp. v. Vermont Tax Commissioner*, 445 U.S. 425 (1980), the U.S. Supreme Court held that the income of a multistate business can be apportioned if its intra-state and out-of-state activities form a part of a unitary business. In *Mobil*, the Court set out the following factors, which have become the basis of determining whether a business is unitary:

- Functional integration;
- Centralization of management; and
- Economies of scale.

B. Apportionment Formulas

Under formulary apportionment, there is no attempt to trace items of income to the state in which the income was generated. Rather, a formula is used to arrive at an adequate approximation. Formulary apportionment divides a multistate corporation’s tax base among the states in which it does business by applying a fraction representing the ratio of in-state factors to total factors. Formulary apportionment merely approximates the amount of income of a business that should be attributed to a particular state. Dividing the income of a corporation by the use of a statutory formula provides a rough approximation of the corporation’s income that is reasonably attributable to the corporation’s operations in the state.

MULTISTATE TAX ISSUES – EXPLANATION

The fact that a corporation has sales in other states does not automatically mean the corporation has the right to allocate and apportion its income. Most states do not permit a corporation to allocate or apportion its income to other states unless the corporation is taxable in another state. Some states require that the corporation actually file an income tax return with at least one other state before the corporation has the right to allocate and apportion its income.

The method that until recently was most frequently used to apportion business income to a particular state was an evenly-weighted three-factor formula that compares the ratio of in-state to overall property, payroll, and sales.

The trend over the past several years has been for the states to assign more weight to the sales factor than the other two factors (i.e., double weight the sales factor) or use a formula with less than three factors (two-factor or single-factor sales formulas). In addition, some states provide different formulas depending upon the taxpayer's industry.

Generally, in determining the apportionment formula, the sum of the factors is divided by no more than the number of applicable factors. Therefore, if one or more of the factors is not present for the total operations of a corporation (i.e., the denominator of the factor is zero), the average apportionment typically is determined by dividing the sum of the factors by the number of the factors present. For example, for a state that has adopted an evenly weighted three-factor formula, if either the sales, property or payroll factors are not present, the apportionment formula is determined by dividing the sum of the remaining two factors by two.

In general, a taxpayer first ascertains the income that is to be apportioned and then multiplies this amount by the arithmetical average of three ratios:

- In-state property to total property;
- In-state payroll to total payroll; and
- In-state sales to total sales.

1) Property Factor

In general, the property factor consists of the taxpayer's real and tangible personal property owned or rented and used during the tax period in the regular course of the taxpayer's trade or business. Intangible property is not usually included in the property factor. Additionally, only property used to produce business or apportionable income, not property that produces nonbusiness income, is included in the property factor. Property owned typically is valued at its average (beginning of year and end of year) cost. Rented property usually is valued at eight times its annual rental.

2) Payroll Factor

In general, the payroll factor consists of compensation paid by the taxpayer in the regular course of its trade or business during the tax period. Compensation consists of:

- Taxable wages;
- Salaries;
- Commissions; and
- Any other form of remuneration paid to employees for personal services, (but does not include amounts paid to independent contractors).

Some states exclude officers' compensation from the payroll factor.

MULTISTATE TAX ISSUES – EXPLANATION

3) Sales Factor

In general, the sales factor consists of all gross receipts from transactions and activities in the regular course of the taxpayer's trade or business. The sales factor normally includes, but is not limited to the following:

- Gross sales (less returns and allowances);
- Fees and commissions received from the performance of services;
- Rents and lease payments received from renting real or tangible property;
- Proceeds from the disposition of other tangible and intangible assets; and
- Royalties and other payments received from the sale, assignment, or licensing of intangible personal property such as patents and copyrights.

In order to prevent certain receipts from escaping inclusion in any state's sales factor numerator, many states incorporate the "throwback" rule. Sales of tangible personal property to a destination state where the seller is not taxable (*e.g.*, because its activities do not exceed solicitation under P.L. 86-272) are "thrown back" to the numerator of the state from which the goods were shipped.

NET OPERATING LOSSES (NOLs) STATE TAX ISSUES – EXPLANATION

Most states permit a deduction for NOLs. While some states explicitly adopt the federal NOL deduction by using line 30 of federal Form 1120 (taxable income after the NOL deduction and special deductions) without modification as the starting point for computing state taxable income, others use line 30 as the starting point of the state tax calculation, but add back the federal NOL deduction and provide a specific computation of the state NOL deduction. Still other states begin the tax calculation with line 28 of the federal return (taxable income before NOL deduction and special deductions) and provide their own set of rules for determining a state-level NOL deduction.

The most common variation in determining state NOLs involves the determination of the period of carryback and carryforward. Many states do not follow the federal rules under §172. Several states limit the carryforward period, while many of the states do not allow NOL carrybacks at all. Note that federal and state NOL periods may not match because the taxpayer may not have been doing business in the state in the loss year, or because the NOL arose before the state began imposing the tax.

Regardless of conformity to line 28 or 30, the state NOL and the amount of carryback or carryover allowed may differ from the federal amount as a result of state adjustments (modifications), the application of apportionment factors, whether the corporation was subject to the state's tax in the loss year, and the segregation of business and nonbusiness income (*i.e.*, allocation of nonbusiness income and the apportionment of business income).

Some states require that the NOL be carried over from the loss year after allocation and apportionment (*i.e.*, post-apportionment). These states provide that the NOL deduction should be applied in the carryover year after allocation and apportionment. This permits only the loss attributable to that state to be carried over against income from that state.

In determining the amount of NOLs in states that compute NOLs on a post-apportionment basis, a state may use the apportionment factor in the loss year or the apportionment factor in the year the loss is utilized. Other states, however, allow the NOL computation to be made before apportionment and permit the deduction to be applied in the carryover year before apportionment.

A few states permit an affiliated group of corporations to file a consolidated state return rather than separate returns for each affiliated corporation if the requirements of the Internal Revenue Code and state law are satisfied. Even if consolidated returns are filed at both the federal and state levels, the calculation of the NOL deduction for federal and state purposes may differ markedly.

Some states, even in the context of a consolidated filing, may require NOLs to be tracked on a separate company basis.

Some states add their own restrictions on the use of NOLs generated in separate return filing years. A number of states do not permit consolidated returns and hence require affiliated group members filing a consolidated federal return to compute their state NOL deductions on a separate company basis.

States that provide for combined reporting by unitary business groups may differ as to how the NOL computation is to be made. If a state allows or requires a member of an affiliated group filing a consolidated federal return to file on a separate company basis, the NOL generally is computed as if the member filed on a separate company basis for federal income tax purposes. Thus, the NOLs available for state purposes may differ from those reported on the federal consolidated returns.

Note that each state's definition of consolidated versus combined reporting should be reviewed prior to preparing any state tax returns. Also note that the states vary in their treatment of NOL carryovers after corporate reorganizations, acquisitions, or liquidations. Accordingly, specific state laws should be consulted when addressing state NOL issues.

STATE CORPORATION INCOME TAX RETURN CHECKLIST

2004

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) For state tax forms, instructions, tax codes, cases, regulations, rulings, procedures, etc., refer to the AICPA's Internet web page at www.aicpa.org/yellow/index.htm .	_____	_____	_____
102) For comprehensive charts and lists of various items and requirements (e.g., tax rates, filing dates, extensions, estimated taxes, exemptions, reports, limitation periods, NOL deductions, etc.), refer to a state tax reporter service or the Federation of Tax Administrator's Internet web page at www.taxadmin.org .	_____	_____	_____
103) Obtain information concerning state tax audits and correspondence.	_____	_____	_____
104) If a federal audit has been settled, consider notifying state(s).	_____	_____	_____
105) Determine if the client has sufficient connection with any other state that may require an income, franchise or privilege tax return. (Note that requirements for filing a franchise or privilege tax return may differ from requirements for filing an income tax return.) If multistate, see items under checklist section #500 and check nexus information.	_____	_____	_____
106) Consult the <i>Unique Considerations for State Corporation Tax Returns</i> (also in this AICPA Tax Practice Guides and Checklists publication package) for common problems and unique tax issues for each state tax return to be prepared. Also consult the various <i>Nexus, Multistate Tax and State NOL Issues Practice Guides</i> in this AICPA Tax Practice Guides and Checklists publication package for further information relevant to the checklist sections #111, #600, and #700.	_____	_____	_____
107) Obtain and review information related to state statutory, regulatory, judicial, administrative changes or amnesty programs since the filing of the prior return.	_____	_____	_____
108) Review prior year returns for elections, NOLs, etc.	_____	_____	_____
109) Consider the impact of any acquisitions, divestitures and reorganizations on state income and franchise taxes.	_____	_____	_____
110) Determine if the operations of a division have changed substantially during the year, including a sale or transfer of a major portion of the assets located in a particular state.	_____	_____	_____
111) Determine with the client the proper filing status (separate, unitary, combined, or consolidated) for multicompany entities. (Note election possibilities or a mandatory method.)	_____	_____	_____
112) Determine if the impact of intercompany transactions (e.g. eliminations, deferred intercompany transactions, etc) have been properly accounted for in the various state tax liabilities.	_____	_____	_____

STATE CORPORATION INCOME TAX RETURN CHECKLIST
2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
113) If an S corporation, consider composite filing for nonresident shareholders. In addition, determine state tax treatment if any QSubs exist:			
.1) Review S corporation provisions for each state.	_____	_____	_____
.2) Review taxation of S corporation shareholders, especially nonresidents, for each state.	_____	_____	_____
114) Consider if disaster relief provisions apply.	_____	_____	_____
200) INCOME			
201) If the state uses income on the federal return as a starting point, either before or after the net operating loss deduction or special deduction, transfer income information from the federal return.	_____	_____	_____
202) Determine if federally exempt (e.g., municipal) interest and dividends are subject to add back. (Note possible offset of direct and/or apportioned indirect expenses against the tax-exempt income.)	_____	_____	_____
203) Determine each state's tax-exempt interest and dividends for possible subtraction (e.g., home state interest if all states' interest was added back in checklist section #202). (Note possible offset of direct and/or apportioned indirect expenses against the tax-exempt income.)	_____	_____	_____
204) Determine interest and dividends from U. S. government obligations for possible subtraction. (Note possible offset of direct and/or apportioned indirect expenses against the tax-exempt income.)	_____	_____	_____
205) Check for any other income taxable on the state return that was not taxed on the federal return.	_____	_____	_____
206) Check for any income taxable on the federal return that may not be taxable on the state return.	_____	_____	_____
300) DEDUCTIONS			
301) Determine any differences between federal and state deductions (e.g., state tax deduction, dividend received deduction, depreciation).	_____	_____	_____
302) Determine any differences between federal and state carryovers (e.g., capital loss, excess charitable contributions, NOLs).	_____	_____	_____
303) Determine the state's treatment of 30% & 50% additional first-year depreciation & § 179 deduction. (JGTRRA 2003)	_____	_____	_____
400) TAX COMPUTATION AND CREDITS			
401) Determine any state alternative minimum tax.	_____	_____	_____
402) Compute any applicable tax credits (e.g., investment, jobs, enterprise, environmental, rehab) including carryovers.	_____	_____	_____

STATE CORPORATION INCOME TAX RETURN CHECKLIST
2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
403) Compute any credit recapture.	_____	_____	_____
404) Confirm amounts and dates of any state and local estimated tax deposits/payments (including withholding) for the year, prior year overpayments, and extension payments.	_____	_____	_____
405) Prepare estimated tax vouchers.	_____	_____	_____
406) Compute tax underpayment penalties.	_____	_____	_____
500) MULTISTATE ISSUES			
501) Determine in which states a multistate corporation is required to file income or franchise tax returns. Consult the AICPA <u>Nexus, Multistate Tax and State NOL Issues Practice Guides</u> for guidance and for an overview of nexus and details on ordering the AICPA <u>State Tax Nexus Checklist/Practice Guide</u> .	_____	_____	_____
502) Consult the <u>Nexus, Multistate Tax and State NOL Issues Practice Guides</u> (also in this AICPA <u>Tax Practice Guides and Checklists</u> publication package) for information on multistate allocation and apportionment and net operating loss issues.	_____	_____	_____
503) If the corporation is not taxable in more than one state, determine if the corporation is permitted to apportion its income.	_____	_____	_____
504) Determine the available methods of dividing the income tax base of a multistate corporation for all states for which returns are required (e.g., separate accounting, specific allocation, formulary apportionment). (Note any states with special elections available.)	_____	_____	_____
505) If separate accounting method is a beneficial option, determine if necessary records for separate accounting are available.	_____	_____	_____
506) Determine the need to distinguish between business income and nonbusiness income. (Note the respective tests.)	_____	_____	_____
507) If the corporation has income subject to specific allocation:			
.1) Identify income subject to specific allocation.	_____	_____	_____
.2) Determine treatment of expenses directly or indirectly related to allocated income. (These are generally added back or netted against the applicable income.)	_____	_____	_____
508) Determine if the state in which you are filing requires or permits unitary, combined or consolidated reporting and which test(s) applies.	_____	_____	_____
509) Determine each state's restriction on the offset of capital gains against capital losses.	_____	_____	_____
510) Determine the total income that is to be apportioned.	_____	_____	_____

STATE CORPORATION INCOME TAX RETURN CHECKLIST
2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
511) Determine each state's apportionment formula for business income:			
.1) Check if any of the states' formulas differ from the standard three-factor formula (e.g., double weighted sales factor, a formula with less than three factors or a specific formula based on the corporation's industry).	_____	_____	_____
.2) Check the various states' rules that establish:			
(a) which items are included in the factors,	_____	_____	_____
(b) the timing of entry and removal from the factors,	_____	_____	_____
(c) the evaluation of items included in the factors, and	_____	_____	_____
(d) how items are assigned to a particular state (e.g., mobile property) and included in that state's apportionment factor numerator.	_____	_____	_____
512) Determine the amounts to be included in the property factor and check the various states' rules concerning the use of cost or adjusted book values in property values.	_____	_____	_____
513) Determine the amounts to be included in the payroll factor and check the various states' rules for treatment of special classes of compensation such as compensation of corporate officers, commissions and other compensation, or payments to independent contractors.	_____	_____	_____
514) Determine the amounts to be included in the sales factor considering each state's rules concerning "throwback" sales.	_____	_____	_____
515) Reconcile the denominator of the sales factor to the amount of sales reported on the federal return.	_____	_____	_____
516) Determine the availability of like-kind exchange treatment if exchanged properties are located in different states.	_____	_____	_____
600) STATE NOL ISSUES			
601) Determine each state's rules concerning calculation of net operating losses (NOLs) and any related carrybacks or carryforwards.	_____	_____	_____
602) Determine each state's starting point for calculation of a NOL, such as federal taxable income with or without NOL modification, or federal taxable income before the federal NOL deduction with a state specific NOL calculation.	_____	_____	_____
603) For multistate returns:			
.1) Determine each state's effect on the NOL and the amount of carryback or carryforward due to state modifications, apportionment factors, and the allocation of nonbusiness income.	_____	_____	_____

STATE CORPORATION INCOME TAX RETURN CHECKLIST
2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.2) Determine if the corporation filed a state return in the year the loss was generated and if that fact impacts the use of the loss.	_____	_____	_____
.3) Determine if NOL carryforwards and carrybacks use the apportionment factor for the year of the loss or for the year the loss is utilized.	_____	_____	_____
604) For affiliated groups of corporations filing a consolidated return:			
.1) Determine if state NOLs may need to be tracked on a separate entity basis.	_____	_____	_____
.2) Check for state requirements concerning separate return filing years and effects on NOL carryforwards and carrybacks.	_____	_____	_____
605) If combined corporate reporting is allowed or required by a state, check if combined or separate method is used for calculating the NOL for that state.	_____	_____	_____
606) Check on the treatment of any NOL carryovers if a corporation has had a reorganization, acquisition, or liquidation.	_____	_____	_____
607) Consult the <i>Nexus, Multistate Tax and State NOL Issues Practice Guides</i> (also in this AICPA Tax Practice Guides and Checklists publication package) for an explanation of state net operating loss issues.	_____	_____	_____
700) OTHER			
701) Attach extensions and other required attachments.	_____	_____	_____
702) Identify planning opportunities (e.g., economic incentives) for minimizing state taxes.	_____	_____	_____
703) Identify and report any out of jurisdiction purchases for use tax.	_____	_____	_____
704) Advise the client of their exposure to other business tax programs (e.g., sales, gross receipts, license, employment, inventory, property, etc.) and unclaimed property obligations.	_____	_____	_____
705) Consider preparing a workpaper schedule for the file concerning state items to track, carryforward items, and any matters of future concern.	_____	_____	_____
706) Determine if client has filed and paid all unclaimed property reports.	_____	_____	_____
707) Check NAUPA Internet web page at www.unclaimed.org to determine if client is owed any unclaimed property.	_____	_____	_____

COMMENTS OR EXPLANATIONS

STATE INDIVIDUAL INCOME TAX RETURN CHECKLIST

2004

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) For state tax forms, instructions, tax codes, cases, regulations, rulings, procedures, etc., refer to the AICPA's Internet web page at www.aicpa.org/yellow/index.htm .	_____	_____	_____
102) For comprehensive charts and lists of various items and requirements (e.g., tax rates, filing dates, extensions, estimated taxes, exemptions, reports, limitation periods, NOL deductions, etc.), refer to a state tax reporter service, or the Federation of Tax Administrator's Internet web page at www.taxadmin.org .	_____	_____	_____
103) Obtain information concerning state tax audits and correspondence.	_____	_____	_____
104) If a federal audit has been settled, consider notifying state(s).	_____	_____	_____
105) Determine if the client has sufficient connection with any other state that may require an income and/or unincorporated business tax return (i.e., through the ownership of property, S corporation stock, partnership interests, etc.) (Note that requirements for filing an unincorporated business tax return may differ from requirements for filing an income tax return.) If multistate, see items under checklist section #500.	_____	_____	_____
106) Consult the <i>Unique Considerations for State Individual Tax Returns</i> (also in this AICPA Tax Practice Guides and Checklists publication package) for common problems and unique tax issues for each state tax return to be prepared.	_____	_____	_____
107) Obtain and review information related to state statutory, regulatory, judicial, administrative changes or amnesty programs since the filing of the prior return.	_____	_____	_____
108) Review prior year returns.	_____	_____	_____
109) Check the client's filing status for state purposes and any benefit from separate spousal income calculations where available.	_____	_____	_____
110) Consider if disaster relief provisions apply.	_____	_____	_____
200) INCOME			
201) If the state uses income on the federal return as a starting point, transfer income information from the federal return.	_____	_____	_____
202) Determine interest and dividends from bonds that are exempt from federal tax for possible add back. (Note possible offset of direct expenses and/or apportioned indirect against the tax-exempt income.)	_____	_____	_____

STATE INDIVIDUAL INCOME TAX RETURN CHECKLIST

2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
203) Determine each state's tax-exempt interest and dividends for possible subtraction (e.g., home state interest if all states' interest was added back in checklist section #202). (Note possible offset of direct expenses and/or apportioned indirect against the tax-exempt income.)	_____	_____	_____
204) Determine interest and dividends from U. S. government obligations for subtraction. (Note possible offset of direct expenses and/or apportioned indirect against the tax-exempt income.)	_____	_____	_____
205) Check for any other income taxable on the state return that was not taxed on the federal return.	_____	_____	_____
206) Check for any income taxable on the federal return that may not be taxable on the state return (e.g., pensions, IRAs, state tax refund, Social Security, lottery winnings).	_____	_____	_____
207) Check for the client's qualification for any special income exclusion programs (e.g., senior citizen, low income, military).	_____	_____	_____
300) DEDUCTIONS			
301) Determine the state's treatment of standard or itemized deductions and personal exemptions.	_____	_____	_____
302) Determine any differences between federal and state deductions (e.g., NOLs, IRA, SEP, Keogh, state tax deduction, federal tax deduction).	_____	_____	_____
303) Determine the client's qualification for any special state deduction program (e.g., adoption of special needs children, senior citizen, renter).	_____	_____	_____
304) Determine the state's treatment of 30% & 50% additional first-year depreciation and § 179 deduction. (JGTRRA 2003)	_____	_____	_____
400) TAX COMPUTATION AND CREDITS			
401) Determine any state alternative minimum tax.	_____	_____	_____
402) Identify and report any out-of-state purchases to be reported for use tax purposes.	_____	_____	_____
403) Compute any applicable tax credits (e.g., investment, jobs, enterprise, renter, senior citizen, rehab) including carryovers.	_____	_____	_____
404) Compute any credit recaptures.	_____	_____	_____
405) Confirm amounts and dates of any state and local estimated tax deposits/payments (including withholding) for the year, prior year overpayments, and extension payments.	_____	_____	_____
406) Prepare estimated tax vouchers.	_____	_____	_____
407) Compute tax underpayment penalties.	_____	_____	_____
408) Determine the client's wishes concerning any check off programs.	_____	_____	_____

STATE INDIVIDUAL INCOME TAX RETURN CHECKLIST
2004

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
409) Determine the client's wishes concerning any overpayment (refund or carryover) and inform client of possible federal and state refund offset programs.	_____	_____	_____
500) MULTISTATE ISSUES			
501) Determine the source state of all sources of income for possible nonresident filing obligations.	_____	_____	_____
502) Calculate taxable income in each state based on applicable states' rules.	_____	_____	_____
503) For business activities, calculate the allocated income and apportionment factors for each state. (Note that states are not consistent in determination of these items.)	_____	_____	_____
504) Determine if a credit for taxes paid to other states is available.	_____	_____	_____
600) OTHER			
601) Attach extensions, Forms W-2 and other required attachments.	_____	_____	_____
602) Identify planning opportunities for minimizing state taxes.	_____	_____	_____
603) Consider preparing a workpaper schedule for the file concerning state items to track, carryforward items, and any matters of future concern.	_____	_____	_____
604) Check NAUPA Internet web page at www.unclaimed.org to determine if client is owed any unclaimed property.	_____	_____	_____

COMMENTS OR EXPLANATIONS
